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ABSTRACT

This document reports on a Congressional hearing on assistance to workers dislocated or unemployed due to the serious economic deterioration impacting the country, partly due to the events of September 11, 2001. Testimony includes statements of United States Representatives John Boehner and George Miller; Michael Hannah, representing Local 13358, United Steelworkers of America, Birmingham, Alabama; Linda Woods, the Philadelphia Unemployment Project; John L. Sweeney, AFL-CIO; and Peter R. Orsjag, the Brookings Institution, Washington, D.C. Appendixes amounting to more than half of the document include the written statements of those providing live testimony. (YLB)

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ECONOMIC RECOVERY AND ASSISTANCE TO WORKERS

HEARING

BEFORE THE

COMMITTEE ON EDUCATION AND THE WORKFORCE

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, NOVEMBER 14, 2001

Serial No. 107-40

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HEARING ON ECONOMIC RECOVERY AND ASSISTANCE TO WORKERS

November 14, 2001

Committee on Education and the Workforce

U. S. House of Representatives

Washington, D.C.

The Committee met, pursuant to call, at 2:17 p.m., in Room 2175, Rayburn House Office Building, Hon. John A. Boehner, Chairman of the Committee, presiding.

Present: Representatives Boehner, McKeon, Johnson, Tancredo, Fletcher, Isakson, Biggert, Tiberi, Osborne, Miller, Kildee, Owens, Payne, Andrews, Roemer, Scott, Woolsey, Rivers, McCarthy, Tierney, Sanchez, Kucinich, Wu, Holt, Solis, Davis, and McCollum.

Staff Present: Stephanie Milburn, Professional Staff Member; Dave Thomas, Legislative Assistant; Jo-Marie St. Martin, General Counsel; Heather Valentine, Press Secretary; Kristin Fitzgerald, Professional Staff Member; Patrick Lyden, Professional Staff Member; Molly Salmi, Professional Staff Member; Deborah Samantar, Committee Clerk/Intern Coordinator; John Lawrence, Minority Staff Director; Mark Zuckerman, Minority General Counsel; Cheryl Johnson, Minority Counsel; Peter Rutledge, Senior Legislative Associate, Labor; and Brian Compagnone, Minority Staff Assistant, Labor.

Chairman Boehner. The Committee on Education and the Workforce will come to order. We are meeting today for a Minority Day of testimony on economic recovery and assistance to workers. Under Committee rule 12-B, opening statements are limited to the Chairman or Ranking Member of the Committee; therefore, if other Members have statements, they will be included in the record. With that, I ask unanimous consent for the hearing record to remain open

for 14 days to allow Members' statements and other extraneous material referenced during the hearing today to be submitted in official hearing record. Without objection, so ordered.

OPENING STATEMENT OF CHAIRMAN JOHN BOEHNER, COMMITTEE ON EDUCATION AND THE WORKFORCE

I thank you all for joining us today for our continued discussion on assistance for workers. This issue remains a matter of urgency for all Americans. Even in the time since our previous hearing on October 16 during which Labor Secretary Chao testified, we have seen new evidence of the impact of the terrible attacks of September 11 and what they have done to our economy and to our workforce.

The Department of Labor recently released unemployment figures for October. The unemployment rate rose to 5.4 percent with hundreds of thousands of additional individuals now unemployed. We know that our economy already was softening prior to the attacks, particularly in manufacturing. However, in the aftermath of that fateful day, other sectors have been impacted dramatically. A sharp decline in travel and tourism has hit one service sector the hardest, and I am sure we have heard from all kinds of individuals in our districts seeking assistance with finding employment or help for their families.

Congress has worked for years to create a workforce development system to assist during such times, and through the existing one-stop career centers, workers can access a variety of services and safety net programs created to help dislocated workers. However, we all agree and we are all committed to making sure that our system is seamless and no worker or family falls through the cracks. We know the goal of dislocated persons is to find new work and our efforts must be geared toward that.

In that light, I would like to reiterate something that Secretary Chao stated in her testimony before us last month. Our emphasis must be on rapid response with assistance that is immediate, effective, and targeted at the problem at hand. Any steps we take should build upon existing work force development systems without creating new permanent programs to address the needs of workers impacted by September 11, particularly when expensive new programs could have unintended negative consequences for our economy. We must ensure a compassionate response is focused on giving families the tools and opportunities to find jobs.

President Bush and Labor Secretary Chao have outlined reasonable steps the Congress should take to strengthen the safety net for displaced workers as they look for work. The Administration's proposal is designed to help workers across all industries that have lost their jobs as a result of the events of September 11 by putting people back to work and providing needed income support and access to health care. These proposals will provide needed additional resources while maintaining flexibility in the current system.

Recently I introduced H.R. 3112, which would enact part of the President's plan. The bill would increase national emergency grants within the Workforce Investment Act of 1988 by $3

billion. These flexible funds could be used to pay up to 75 percent of the cost of health care coverage for up to 10 months for dislocated workers, provide additional weeks of income support for individuals who have exhausted their unemployment compensation or do not qualify for such payments and provide additional dollars to offer a full array of job search and training activities.

I remain concerned about creating new programs that require new administrative structures and lead to long implementation delays. The Administration's plan can be implemented immediately because it builds upon the existing workforce development structure. Some may feel it does not provide enough long-term relief. However, we know that it will provide months of real relief for workers during which time we can evaluate the status of the economy and determine if further action is necessary and appropriate.

Today we welcome witnesses testifying at the request of the Members on the Democrat side of the aisle, and we look forward to hearing their perspectives on how we can assist American workers. In addition, I look forward to continuing to work with Members of this Committee on both sides of the aisle to provide hope for workers and their families in these difficult times.

WRITTEN STATEMENT OF CHAIRMAN JOHN BOEHNER, COMMITTEE ON EDUCATION AND THE WORKFORCE –
SEE APPENDIX A

Chairman Boehner. I would now like to yield to my colleague and friend, the Ranking Member from California, Mr. Miller.

OPENING STATEMENT OF RANKING MEMBER GEORGE MILLER, COMMITTEE ON EDUCATION AND THE WORKFORCE

Thank you, Mr. Chairman, and thank you for working with us to hold these hearings at our request. Today the Committee on Education and the Workforce is having a unique hearing, the first hearing called this year by the Members of the Democratic caucus to look into the serious economic deterioration impacting our country and our working men and women. This hearing offers us a chance to reshape the economic stimulus legislation that does not adequately address the urgent needs of millions of the jobless American working families. The October increase in unemployment was the largest over two decades adding more than a half million jobless to the 1.1 million jobs lost this year prior to September 11.

Only a few weeks ago the House of Representatives passed a stimulus package that lavished billions of dollars on the wealthiest of Americans, the same fortunate few who enjoyed most of the tax cuts passed earlier this year by the same Congress while offering crumbs to the

hundreds of thousands who have lost their jobs and whose families are on the brink of economic catastrophe. The criticism of that House stimulus bill was by no means partisan in nature. This is the bill that, in the words of a Wall Street Journal, November 1 editorial, mainly padded corporate bottom lines. No less a conservative writer than Kevin Fields compared the House passed bill to war profiteering passed in the name of phony economic stimulus.

Under the Republican bill, Larry Johnson won't get a dime. Larry Johnson doesn't work in a corporate boardroom. He cleaned the bar and polished the floors at the World Trade Center and now he's out of a job and he is denied unemployment benefits by New York. There are hundreds of thousands of "Larry Johnsons", and something is very wrong here. While 97 percent of the employers pay unemployment funds, less than 40 percent of the workers nationally receive unemployment assistance, a substantial drop over the last 25 years. And in some States, the percent of the qualified is much lower than that. Workers in the new economy, younger, immigrant, part-time, low income, short term, are especially hurt by inadequate unemployment insurance, and economists are predicting that another 1.5 million could lose their jobs over the next nine months.

Even for those who do qualify, benefits levels are often below the poverty line, leaving millions of suddenly unemployed Americans facing poverty, joblessness and homelessness. The Republican response to this crisis has been an anecdote of Herbert Hoover. Help the rich and the poor will benefit from the improving economy. Prosperity is right around the corner. But we were not elected to ignore the suffering of our constituents.

When will the Congress hear the voices of our desperate countrymen and women and demonstrate its concern for the real victims of this recession? First the House passed a $1.4 trillion tax cut mainly for the wealthy, then the $38 billion bailout for the oil, gas, and electric and nuclear power companies, a $15 billion bailout for the airlines industry ignoring the workers, and a stimulus bill that showers over a $100 billion more on the wealthiest, most powerful in our Nation and only a fraction of the genuine stimulus.

This afternoon, this Committee will hear from those neglected voices beginning with the distinguished President of the American Federation of Labor, Congress and Industrial Organizations, John Sweeney. Mr. Michael Hannah and Ms. Linda Woods, who are workers who find themselves in a predicament at this point in our economy, accompany him. I want to welcome them to the Committee. Thank you again, Mr. Chairman.

WRITTEN STATEMENT OF RANKING MEMBER GEORGE MILLER, COMMITTEE ON EDUCATION AND THE WORKFORCE – SEE APPENDIX B

Chairman Boehner. Thank you, Mr. Miller. It is now my pleasure to introduce our panel of witnesses today.

Our first witness is Mr. Michael Hannah, President of Local 13358 of the United Steelworkers of America. Mr. Hannah is from Birmingham, Alabama. Welcome.Our second witness today is Ms. Linda Woods. She is representing the Philadelphia Unemployment Project, Philadelphia, Pennsylvania. We welcome you. Our last witness today will be Mr. John Sweeney, President of the AFL-CIO, located here in Washington, D.C.

With that, Mr. Hannah, you may begin.

STATEMENT OF MICHAEL HANNAH, PRESIDENT, LOCAL 13358, UNITED STEELWORKERS OF AMERICA, BIRMINGHAM, AL

Good afternoon. I am a member of the United Steelworkers of America, Local 13358, Birmingham, Alabama. My employer, Butler Manufacturing, maker of pre-engineered metal buildings, recently notified me that effective November 30, I would be laid off from my job indefinitely. This layoff of 99 workers will be the third mass layoff at my plant in the last two years. Our company explained that this upcoming layoff is because of decreased business levels directly related to the September 11 terrorist attacks.

The layoff is expected to last 6 to 8 months and possibly longer. In January of this year, I was among a group of 148 employees laid off for a 4-month period, during which time I received unemployment benefits of $190 per week. I now have only 7 weeks of unemployment benefits remaining in my state eligibility. It seems very likely that in this next layoff period, that I will run out of unemployment benefits before being recalled to my job.

The number of initial weekly jobless claims filed in Alabama rose by 51.1 percent from September 1 to October 27, and these numbers are climbing. With the unemployment rate rising in Alabama, the prospects of finding a decent paying job in my area are not very promising. It is especially tough when prospective employers hear that I have over 29 years of service with my employer, and that I intend to return there when I am recalled from layoff. It is my opinion that the 26-week maximum benefit period is not sufficient, especially during this time of rising unemployment levels.

With the weekly unemployment compensation benefit level in my State being so low, I expect to have some very tough times ahead of me. I can only hope that our government will see the need to provide unemployed workers with additional benefits that would help us to provide for our families as we suffer through the repercussions of the September 11 tragedy. We desperately need a Federal extension of weekly benefits. We also need increased benefit levels especially in States such as Alabama, where the maximum benefit is only $190 per week.

Another problem that I will have is a lack of health insurance during the period I am unemployed. If I choose to keep my health insurance coverage, the COBRA rate that I would have to pay would be $529 per month. There is no possible way I can afford to pay COBRA for the several months that I expect to be off of work. My wife is disabled due to a back injury that

requires frequent doctor visits and some very expensive medication. It will be a real challenge for me to see that she gets medical care during my layoff. I feel that our government should assist people with insurance costs in these situations so that they can keep their medical coverage during a temporary period of unemployment.

I have been an industrial worker for 29 years and I have witnessed a state of decline in many manufacturing jobs in Alabama. According to my reading of recent reports, the United States lost 1.3 million manufacturing jobs between July 2000, and October 2001, with another 142,000 manufacturing jobs lost in the month of October. As a proud American worker, I place blame on our government's failed trade policies and the changes in our economy. As the elected President of my local union at Butler Manufacturing, I represent 149 union members. There are currently 53 workers who have been on layoff for periods of 9 to 21 months.

Over the past few weeks, I have become aware of some of the problems and financial troubles that the now laid off members I represent are having. Many of our workers at Butler Manufacturing have exhausted their unemployment benefits completely. Among the workers in their mid to late 20's with families to look after, who are currently on an indefinite layoff at Butler Manufacturing are the following:

Aaron Knight's family has no insurance. He has a wife and two children, a 4-year-old and a newborn. His wife works part-time. His unemployment ran out three months ago. He is looking for work and doing odd jobs where he can find them. For the past few months, he has been borrowing money from family members to pay medical expenses.

Charles Hydrick has a wife and child. He works part-time doing construction work 2 to 3 days a week. His wife works but makes low wages. He was laid off in January and applied for unemployment benefits but didn't qualify, due to an earlier layoff of several months. They have no medical insurance.

Kenneth Copeland has a wife and two children. His wife doesn't work. They have no insurance. His unemployment benefits ran out in July. He found a job and worked for one month before being laid off again. His employer has no idea when he can include him in a plant recall. No unemployment benefits are available to him because he did not qualify under the State rules.

These people are my friends and my co-workers. They are mothers and fathers and grandparents. They need and deserve the full consideration and help of our government.

I would just like to take the opportunity to appeal to our President and our Congress today do pass legislation that would provide immediate assistance to all unemployed workers, regardless of where they live. Give us the help we need by extending and increasing our unemployment benefits and please assist us with a 100 percent COBRA subsidy to allow our families to keep our health insurance. Thank you.

WRITTEN STATEMENT OF MICHAEL HANNAH, PRESIDENT, LOCAL 13358, UNITED STEELWORKERS OF AMERICA, BIRMINGHAM, AL –
SEE APPENDIX C

Chairman Boehner. Ms. Woods, you may begin.

STATEMENT OF LINDA WOODS, ON BEHALF OF THE PHILADELPHIA UNEMPLOYMENT PROJECT, PHILADELPHIA, PA

Good afternoon. I would like to take this time to thank you for inviting me back to speak. My name is Linda Woods, and I have been in the printing and advertisement business for 18 years. As of May the 5th, I was laid off from my job. At this time I have no health insurance. I lost that a month later. And also, I had a salary of $19.11 an hour. Two weeks prior to my layoff, my son was laid off from his jobs. He held two jobs, in the hotel business and in the car factory business also. His hotel business went first and his factory job went in May also. At this time, my entire family is out of work. We are in need. My son has taken advantage of going back to school for retraining, but my question is how does the system offer 13 months of retraining if unemployment is only for 6 months?

As a parent, I am saying to myself how can I help my son? Parents are supposed to be there for their children. They are supposed to be the backbone of their children. How can I be there for him when I am out of work myself? I am angry at the system at this time because as I said, I question is the system really set up for the working person? I have worked the majority of my life. I have given to the system, and for the system to hand me back 26 weeks and say get your life in order, I am angry. I am angry. I have one check left on my unemployment. My son's checks have run out.

So I am at this question of how are we going to make it? How are we going to make it? Tomorrow I have an interview at a camera shop paying $6.50 an hour. I have been looking for work since May and I have not yet been offered a job paying over $7 an hour. My question to you on behalf of millions, and myself is when is this legislation going to take effect? I don't have the time. My time is running out. What am I supposed to do? How is my family supposed to make it?

Thirteen weeks is a good start, but in 1991, workers received 33 weeks of extension; in 1983, the unemployed received 23 weeks; 1975, workers received 39 weeks. This recession is just getting started and we need more than 13 weeks. Walk in my shoes. How am I going to make it? At the age of 46, I never would have believed I would be looking for a job, but I am. Families need help and they need help now. My family needs help.

I would like to take this time also for my son to stand up and be recognized, because I am very, very proud of him. Thank you very much.

WRITTEN STATEMENT OF LINDA WOODS, ON BEHALF OF THE PHILADELPHIA UNEMPLOYMENT PROJECT, PHILADELPHIA, PA – SEE APPENDIX D

Chairman Boehner. Mr. Sweeney, you may begin.

STATEMENT OF JOHN J. SWEENEY, PRESIDENT, AFL-CIO, WASHINGTON, D.C.

Mr. Chairman, Mr. Miller, Members of the Committee, I want to thank you for this opportunity. I want to thank Michael Hannah and Linda Woods for joining us here today to tell their stories. On behalf of the 13 million working men and women of the AFL-CIO, I thank all Members of the Committee for this opportunity to share our views on how to put America back to work.

The union movement joins with civilized people everywhere in deploring the horrible attacks of September 11, in mourning the loss of innocent lives and the loss of national innocence they occasioned. Among the thousands who died that day were nearly 1,000 union members, many who died in self-valiant and selfless attempts to save others. On September 11, hundreds of thousands of workers lost their livelihoods in the economic crisis that has engulfed the Nation and much of the world.

Terrorist attacks and their devastating impact on consumer confidence, travel and tourism worsened an economic downturn that was already underway. Today there is no doubt we are in a full-fledged recession. Unemployment jumped to 5.4 percent in October; the biggest 1-month jump since 1980. Since September 11, corporations have announced almost 700,000 layoffs. These numbers tell a part of the story. But I would like to give you one example that breathes life into the numbers.

Melanie and Peter Fiedler are both laid-off United Airlines employees. Melanie recently lost her job. Peter lost his in August. The Fiedlers have four young children. Peter gets about $400 per week in unemployment insurance. Because she worked part-time and was on maternity leave for several months this year, Melanie may not qualify for unemployment insurance. For the time being, she gets severance pay and employer provided health care coverage, but when these run out, the family will have to make a $575 monthly COBRA payment to maintain health care coverage. With Peter's monthly unemployment insurance of only $1,600 and the regular

monthly expenses of $1,400, there is no way the Fiedlers can make COBRA payments unless they receive a sizable subsidy.

Stories like these are being repeated countless times over around the Nation. They are stories of men and women who work hard and play by the rules. They do not seek a handout, just what they have earned and deserved. Help to get through this crisis. The way to help families such as the Fiedlers is through sound and sensible tax and spending policies that will provide support to those most in need, revive the economy, promote long-term growth and meet long neglected and unfilled social needs.

First we should increase the assistance to workers who have lost or will lose their jobs during this downturn. Unemployment insurance benefit levels, duration and coverage must all be improved dramatically. Assisting the unemployed shall put money into the hands and pockets of those who need it and who will spend it. The Federal Government should also help unemployed working families maintain health care coverage, either by subsidizing COBRA payments or by providing access to a public benefit funded under Medicaid and administered by the States for uninsured working families without affordable planned coverage. Finally, the Federal Government should fully fund job training and retraining programs for all affected workers.

Second, we should provide direct Federal aid to struggling State and local governments. Many State governments are constrained by balanced budget requirements, and as their revenues have declined they are faced with raising taxes or cutting spending, which will only amplify the downturn and spur further job loss. National Governors Association reports that the current shortfalls in State budgets totals $10 billion.

Third, we should set up Federal investments for building upgrades and update the Nation's public infrastructure, investing in infrastructure, improving road, rail, and maritime transport, restoring our manufacturing base, and boosting our public health system. These among others, will shore up national security and improve our capacity to respond to national emergencies as well as create jobs and improve the overall quality of American life.

Fourth, we should provide budget-targeted tax relief in the forms of one-time rebates for low and middle-income households who did not receive full rebates earlier this year.

Last week, the Senate Finance Committee passed the Economic Recovery and Assistance for American Workers Act, which provides worker relief and investments similar to those I have described. This bill would provide a much-needed boost to the economy and help working families, all at a price we can afford. For these reasons, the AFL-CIO endorses the Economic Recovery and Assistance for American Workers Act.

On the other hand, we oppose the so-called stimulus plans the House has passed and the Administration has proposed. These plans provide limited and uncertain relief for laid-off workers and instead are stacked with large tax cuts for corporations and accelerated rate cuts for higher wage earners.

We urge Congress to reject these tax cut proposals, which violate important principles that the Chairs and Ranking Members of the Senate and House Budget Committees outlined earlier for stimulus packages. First, at a 10-year cost exceeding $200 billion, the plans cost too much and will worsen the Nation's long-term budget outlook. Second, the plan calls for permanent or multi-year tax breaks rather than temporary measures that sunset in 1 year. Third, these tax cuts will have a quick effect on the economy and do not encourage investment now when the needs are greatest.

On September 11 and every day since, workers have been front and center in the Nation's campaign against terrorism. We owe it to them and to the memory of those who died to ensure that working families are also front and center in our national campaign to rebuild the economy and to put America back to work. Thank you.

WRITTEN STATEMENT OF JOHN J. SWEENEY, PRESIDENT, AFL-CIO, WASHINGTON, D.C. – SEE APPENDIX E

Chairman Boehner. The Chair recognizes the gentleman from California, Mr. Miller.

Mr. Miller. Thank you very much for your testimony and for taking your time under obviously difficult circumstances, Linda and Michael, for being here with us.

We obviously believe that you have a very important story to tell, a story that tragically, it appears, more and more Americans are going to share with you. I think you have asked the right questions, Linda, when you asked how long is it going to be? I find it incredible some of us have been warning about the erosion of unemployment benefits and the constant effort by the States to limit eligibility, to limit payments, and to limit duration of those benefits for years and now, of course, you are the victims of that. It didn't matter when they were cutting these benefits back during good economic times. It only matters when people need those benefits.

The other thing that I think is quite striking is that between the two of you, we are talking about almost 50 years of work history day in and day out. Now when you find yourself in a situation of not having a job through no fault of your own, since there is nothing you could have done individually to change the economic cycle in this country, or to change the events of September 11, you are now victims. After 50 years of work history, both of you are running out of your benefits and see the possible collapse of your household financial supports.

It is incredible that we have yet to come up with an automatic counter-cyclical effort. We all know what is going to happen in this recession. This is not going to be a mystery. We may not have wanted to talk about it while we had ten years of a "Huckley Buck" economy, but we knew this day was coming, and now we find ourselves in a situation with a system that has no ability to absorb the numbers of unemployed or the duration which people will be unemployed on that system.

So what does it mean? It means that before this Congress will get to you with help, families will make a decision to lose their car, to start cutting back, and they may lose their houses. In all likelihood when I look at you, Michael, if you wanted to keep your health insurance out of an $800 a month unemployment benefit, it costs you $529 for your family. That is why you have unemployment benefits coming in. When the unemployment benefits are gone, there is no ability to buy this COBRA benefit.

They lose their health care and somehow we, having been through a series of modern economic downturns in 1974, 1984, 1990, still haven't come to grips with the idea that we should not require hard-working Americans, the people we praise as the backbone of this country to slam to the pavement, lose everything, and start over after 50 years of work. That is what is going on in this case.

Twenty-nine years and 18 years of steady effort at a company, and both of you are caught in industries that have an immediate reaction to an economic slowdown. What is going on in the advertising industry and the commercial printing business is in the papers every day. Companies are just going into a sinkhole. Obviously in any kind of building space there are vacancy rates so people aren't using Butler buildings to the extent they would for manufacturing or for commercial space. I almost feel like apologizing for Congress because I can't believe that we would miss this badly, this cycle with this many people who are going to need our help.

You have a situation now where the people who were unemployed before September 11 have their chances of employment greatly diminished because of the terrorist attack that further plunged the economy, and the people who lost their jobs because of the terrorist attack finds themselves in an all-downward spiraling economy, and so they are caught in a "washing machine". They are just being spun around. And yet the Congress sits here. It took us two days to figure out to bail out the airline industry. It took us an hour or 2 hours of debate to pass a stimulus bill for the richest people in the country, but somehow we can't find the time to attend to the needs of what is going to be apparently 2 million new unemployed people before the middle of next year. That is why we felt it was terribly important to have you come and tell your story.

I wish I could tell you that we have extended unemployment benefits that we have provided, as President Sweeney has suggested, a substantial subsidy for the COBRA payment so that families could afford it. But that is not what this Congress is going to be able to tell you unless something breaks dramatically over the next week or so in the negotiations on the stimulus bill. This Congress may go home and have a wonderful Thanksgiving, but it will not attend to the problems of your family, or of your children in that situation.

I wish I had more to say in the way of help, but we don't. I think that makes it all the more important that you are here to tell these stories and that President Sweeney is here and has made very strong recommendations about not only helping the unemployed, but about immediate actions that could be taken today to get this economy moving now, not tax breaks 3 and 4 years from now, not back loaded projects when people will be so far gone in the economy, but about now.

We had hoped that this would be part of the original hearing when the Secretary was here, but we weren't able to do that. We appreciate you taking your time. I yield back my remaining time. Thank you.

Chairman McKeon. [Presiding.] Mr. Johnson? No questions.

Ms. Biggert?

Mrs. Biggert. Thank you, Mr. Chairman.

Mr. Sweeney, I certainly commend you for working with other unions to support the international coalition and President Bush and the effort to eradicate terrorism in Afghanistan. Could you elaborate on your efforts to support the President in the war on terrorism?

Mr. Sweeney. I called the President on September 11 and pledged to him the support of the labor movement in every way that we could support our country in this horrible time. Since then, thousands of union members have been very much involved in the rescue, recovery, and hopefully will be involved in the rebuilding that will take place. We have seen such a coming together and solidarity of workers who are organized as well as workers who are unorganized to support the Administration and the Congress and all of the efforts that have been required. Of course, thousands of our members are also involved in the military and have been called up and are playing their wonderful role.

But with all of this, we don't understand why there isn't a sense of urgency for these hundreds of thousands of families who have been directly impacted by all of this, and we did not express any objection or any lack of concern about bailing out the airline industry as they continued to lay off workers. We just don't understand why the worker protections could not have been included in the airline bailout, especially for those who were directly involved in all of this, including the airline employees. This just seems to be dragging on so long while all of these families are suffering and hurting so badly.

I don't know if any of the Members of Congress have ever experienced being laid off from a job or being unemployed for a substantial period of time, but I am sure there are some. We don't seem to have the political will to address this issue.

Mrs. Biggert. Well, I think that we all share the view that assistance with health care coverage and training as well as cash supports are really vital. A lot of us have seen firsthand our constituents as well as family members who are unemployed. So I wouldn't say that we haven't had that experience. I think we are all working towards solutions and that is the reason we are holding these hearings.

I would like to certainly thank the panelists that are here. We appreciate Ms. Woods and Mr. Hannah sharing their stories with the Committee. I think these are certainly difficult times for our Nation, and I appreciate what you are doing, Mr. Sweeney.

I think that this Committee can develop legislation that can help, but I have been a strong supporter of worker training/retraining that the President's FY 2002 budget makes available. I think it is $6 billion for these programs, and I would like to know more about the program that you are taking, Mr. Hannah or Ms. Woods.

Mr. Hannah. I am sorry?

Mrs. Biggert. Training programs, are you involved in any training program right now that would help?

Mr. Hannah. Not at the moment. We had some people from the State of Alabama came out to the plant yesterday where I work and went over some of the programs that are available and how to apply. I am not very familiar with that at this point, but we have been offered that through the State and we will be pursuing that probably.

Mrs. Biggert. How about you, Ms. Woods?

Ms. Woods. Not at this time. I am not in a training program but my son is, for mechanical engineering. I have applied for financial aid and I do realize I will have to be retrained but, no.

Mrs. Biggert. Are there dollars available for such a training program if you or your son get into that? Does he have some means to be able to take the training? It is very difficult to live if you don't have any dollars available.

Ms. Woods. There are no dollars as far as the training is for 13 months and his training is paid for, but as far as the financial situation, family situation, no, there is nothing.

Mrs. Biggert. We have the Workforce Investment Act, and I know, Mr. Sweeney, you mentioned full funding for training. I think that we need to continue to monitor the spending rates of the States. My time has expired, so I will yield back.

Mr. Sweeney. If I might just say we will be happy to supply you with some more specific information in terms of what we are recommending on retraining and job training. The steelworkers, as an example, have some very, very sophisticated training programs as a part of their labor management programs and negotiations with major steel companies, and we would be happy to show you some of that, to share that with you.

Mrs. Biggert. I would appreciate that, and I yield back.

Chairman McKeon. Mr. Kildee?

Mr. Kildee. Thank you, Mr. Chairman.

The House-passed economic stimulus bill places a great emphasis upon tax cuts for corporations. Many of the tax cuts are retroactive. One is retroactive for 1985, and looking through the list of companies that are getting in some cases a billion to $2 billion, many of those

companies already have excess capacity and so they are not likely to plow money into capital investment. Sometimes they are even tearing down some of their plants because of that. I know that very much in Michigan. But the workers, if they get help, are going to plow that money immediately back into the economy, and that is not just a guess. We get that from history.

I am a history major. I also can remember that, I was born in 1929, Herbert Hoover had great intentions but he really pushed for the reconstruction of finance corporations, which, later on did some good. That was his emphasis. He stated big business has got us into this depression and big business will get us out. But he forgot about the other side of that coin. There is investment on one side of the coin, and there is purchasing power on the other side of the coin, and you can't sell unless you have purchasing power. And when Roosevelt came in, there were programs that helped my dad and all the people on the east side of Flint who were working before the depression. It helped them and they got purchasing power and that was very important.

I can recall my dad spent his money at Kroegers and Sears Roebucks, J.C. Penney. I remember, in 1935, he bought a new washing machine for my mother, a Kenmore from Sears Roebuck. That helped Kenmore Company and its workers. They had to hire workers to produce that washing machine. It helped the steelworkers. They had to produce the steel. The ripple effect of what you give to the worker is immediate. The effect of what you give to businesses, many of which have excess capacity, isn't felt. The workers are not going to put that money into a dresser drawer or a box, they are going to spend it immediately, and that gives an infusion into the economy.

I really think we should take a page from history and know what will immediately affect that. The people of Flint, Michigan have been hurting. If they get any extra money, they are going to spend that money. I think the fundamental defect in the House-passed bill first of all is that it did not give enough dollars or attention or concern for those who are suffering the most, and they are suffering. Also it would stimulate the economy the most. This is a conjunction of good morality and good economics. I have always believed that.

I have always believed that the great secret of success of the American economy has been its purchasing power. As I said there are two sides to the coin. There is investment, and we should encourage investment, but the other side is purchasing power.

Many of these companies that will be getting a billion or $2 billion from the Treasury have that excess capacity. What will they use that money for, to increase the dividends for the stockholders? I really think they are missing the boat and the fundamental difference between the Senate bill and the House bill is, first of all, how to achieve good morality to make sure people are able to live decently as you are asking to do, and your son asking to do, but also good economics. This is a great conjunction on when good morality and good economics come together, and I think that is where we missed the boat in the House. Do you have any comments on that?

Mr. Sweeney. Yes, Congressman. The labor movement has advocated that putting money into the pockets of workers and consumers is the best way to stimulate the economy. We agree with

you that the tax proposals that we have heard do little or nothing to stimulate the economy, and for the reasons that you have outlined. If we really want to stimulate the economy, put it into the hands of workers who are hurting and who will put that money right back into the economy and provide a kick start for it.

It is hard to understand what the thinking is of those who are proposing these tax cuts and tax rebates, and yet not wanting to really provide meaningful protection to workers and their families and for all of the reasons that we have had said earlier.

Mr. Kildee. Thank you very much. I yield back the balance of my time, Mr. Chairman.

Chairman McKeon. Thank you.

Mr. Isakson?

Mr. Isakson. Thank you, Mr. McKeon, and I apologize to the panelists that I was delayed and did not get to hear their testimony. It was certainly not intentional. I would like to thank Mr. Hannah, Mr. Sweeney and Ms. Woods for being here today.

I think just for the sake of what I have heard since I arrived this is one of those things where you can pick sides, especially politically, and especially depending on your district. While certainly there is concern and debate about tax treatment for businesses, I think at least so it gets in the record, American corporations and businesses consume the products of other corporations and businesses. An economic stimulus package either through depreciation, investment, or certain tax preference treatments frees up dollars just like a payment to an individual, and gives dollars to spend on the economy.

So I don't know what was said before, but so it is on the record, we can't dismiss entirely that American business and industry has two roles in the economy among others. One is as an employer, and the second is as an actual consumer of the products of many other American corporations, which is a stimulus for the economy.

Secondly, I read Ms. Wood's testimony with regard to COBRA. Having run a business for 22 years and from time to time either having to lay people off or having that experience within my own family, which I have, I understand the burden of picking up health insurance after you have participated in a company plan that has a great subsidy. And I think I am correct that while there is a difference between the House and the Senate, you are looking at a 75 percent subsidy, and a 100 percent subsidy. And I think that Congress will come very close to what Ms. Woods talked about in her particular testimony.

With that said, I certainly, as one Member of Congress coming from a major metropolitan area that has major manufacturing facilities, aircraft manufacturing facilities, a number of main line workers, am going to work hard. I think we need to keep both the worker and the employer in mind in this stimulus package, and not any of us get too diverted by pure philosophy because we need to do everything we can to make the lives of the workers and the vitality of the

corporations as strong as possible.

So I don't have a question. I just wanted to get that on the record and express my thanks to you all for being here. If you have any comment you are welcome to make it.

Thank you, Mr. Chairman.

Mr. Sweeney. We will be happy to supply you with copies of the oral as well as the written testimony from the three of us. We appreciate your comments and this is really not a political issue, and shouldn't be a political issue. We are talking about how we stimulate our economy and get America back working. We think that just as you feel that proper attention has to be paid to the business issues, the workers are being neglected in this process. It is taking so long, as you know, and we have been bailing out the industry. We are talking about the insurance industry. We are talking about other industries as well. It is high time that the Congress had the political will to take care of workers.

Mr. Isakson. I appreciate that Mr. Sweeney and I tried to include that in my remarks, but from a perspective standpoint. I have a lot of people in the tourism industry and other areas that are calling with regard to the bailout of the airlines, and I know Mr. Miller mentioned that in his testimony. But the fact of the matter is that many times stabilization, which is what we did for the airlines that secured the vitality of that industry at least for a while, also secures the vitality of the jobs that remain.

Now, I understand there have been 100,000 layoffs, and I am not unconcerned about these people, but had we not dealt with that particular issue as expeditiously as we had, the numbers of people who would have been affected, individual employees, would have been tenfold higher.

So the point I was trying to make is there is a balance and you are exactly right. We don't need to get skewed either way. We need to look after the worker. We need to understand that the corporation and the employer plays a role as well and that was the point I was trying too make.

Mr. Sweeney. With all due respect, with or without bailout, the layoffs are going to increase and continue to increase and accelerate in that industry as well as several other industries, and that bailout is not slowing down the layoffs. All we know is that the House voted on a bill that is inadequate, that is insulting to workers, and if there is going to be reconsideration of it, it should happen soon.

Mr. Isakson. Thank you, Mr. Chairman.

Mr. Miller. Mr. Chairman.

Chairman McKeon. Yes?

Mr. Miller. Because I notice that some Members have a time problem, I ask unanimous consent that Dr. Orszag come forward and testify as part of this panel. Then the Members will be able to ask questions on the specifics of the issue of the impact of unemployment insurance.

Chairman McKeon. No objection. So ordered.

Mr. Miller. I thank you.

Chairman McKeon. I would like to introduce Dr. Peter Orszag, Joseph A. Pechman Senior Fellow, The Brookings Institution, Washington, D.C. We are happy to have you here and we will give you five minutes to present your testimony.

STATEMENT OF PETER R. ORSZAG, JOSEPH A. PECHMAN SENIOR FELLOW, THE BROOKINGS INSTITUTION, WASHINGTON, D.C.

Thank you very much, Mr. Chairman. I would actually like to spend my five minutes speaking to one of the questions that was just asked, rather than what I prepared, because I think it is such a crucial question. The key issue facing the economy right now is a lack of demand for goods and services. We are not fully utilizing the plant equipment and workers that we have, and it is often said that unemployment benefits, for example, don't help keep jobs because they just go to unemployed workers. That is actually not the right way to think about what is happening here.

The key thing from a macro economic perspective in terms of unemployment benefits is that they will almost inevitably be extremely quickly spent. In fact, I will quote from the new Nobel Prize winner in economics, Joe Stiglitz, who wrote in The Washington Post this weekend, "give money to people who have lost their jobs in this recession, and it would be quickly spent". I don't think you actually need to win a Nobel Prize to realize that, but the important point is if you give extra dollars to people who have just recently experienced a reduction in their income, they are very likely to spend the extra money. That then creates demand for the firms producing those goods and services that the unemployed workers are buying.

So unemployment benefits are actually sort of a win-win proposition. They help more workers keep their jobs by creating demand for goods and services and they also help to attenuate the cost of unemployment for those who are unfortunate enough to become unemployed.

It is also true that some corporate tax breaks can boost demand in the economy, but not all corporate tax breaks, and I just want to draw the distinction here. Corporate tax breaks are primarily just giving cash to corporations, regardless of their current activities, and I would include within that the changes in the corporate alternative minimum tax. Not exactly that, but to a first approximation, it is that. I would include within that the changes to the subpart F rules that the House legislation made, and a whole series of other changes.

Just giving more cash to corporations does not create more demand for their product. Most corporations are sitting on plenty of cash. Over the past few years, corporations have built up hundreds of billions of dollars in liquid financial assets. That is not the problem. The problem is that they don't have demands for their products. Just giving additional cash to them won't address that problem. It would either just be retained by their companies or passed through the shareholders who tend to be higher income people and would not tend to spend the additional funds.

On the other hand, certain types of corporate tax breaks would create demand and would create incentives for additional demand, and that is corporate tax breaks that are geared towards new things that corporations are doing. I will focus just for a moment on an expensing or tax credit investment type of approach, which is only earned by those firms that actually do make investments. Their purchases of, say, a computer, are additional demand for the manufacturers of the computer, and that does spur the type of demand that we would be looking for in order to offset the slowdown that has been occurring.

Unfortunately the House legislation, which does include such a provision, and the provision is a good one, is not designed right. It extends for too long. Basically, all professional forecasters are currently expecting the recession to be over at some point during next year. The House legislation would provide an investment incentive that lasts through 2004. So for a firm that is trying to decide whether to buy a computer in 2003 or 2002, the House version has no impact on the firm's incentives.

The Senate version limits the incentive to 2002. If you are that same firm and you are deciding whether to buy a computer in 2003 or 2002 and if the incentive is only available in 2002, you are much more likely to purchase that computer in 2002 than if the incentive were available in both years. So by limiting the time period to 2002, the Senate version would actually be more effective when it is most needed, and also cost less over the next 10 years than the House version. There are other various different things about the investment tax credit or the expensing provision that I talked about in my written testimony about how to exactly define it, but I see that my time is running out.

I will just sum up by saying, yes, corporate tax incentives can have some effect on demand but not all corporate tax incentives and unfortunately in my opinion most of the ones that are in the House legislation are of the not particularly helpful kind, rather than the very helpful kind.

And to reiterate, unemployment benefits are not beneficial just to the unemployed. They are beneficial to the macro economy as a whole. In fact, let me cite two statistics briefly in my remaining time. When the head of a household becomes unemployed, recent research by Professor John Gruber of MIT shows food consumption drops by 7 percent. This is not trips, this is not nights out at the movies. Food consumption declines by 7 percent. In the absence of unemployment benefits it would fall by 22 percent. Fact one.

Fact two, another recent study by Alan Auerbach of the University of California, Berkley and Dan Feenberg at NDAR, the unemployment insurance system, even though it is only 1 to 3

percent as large as the total tax system is a quarter as effective at stabilizing the economy as the entire tax system. And what that means is dollar for dollar, it is 8 times more effective. So the unemployment insurance system is very effective at bolstering demands for goods and services and at stabilizing the economy as well as make the lives of people like you have heard from on the panel somewhat better off during their period of unemployment.

Thank you.

WRITTEN STATEMENT OF PETER R. ORSZAG, JOSEPH A. PECHMAN SENIOR FELLOW, THE BROOKINGS INSTITUTION, WASHINGTON, D.C. – SEE APPENDIX F

Chairman McKeon. Thank you, Doctor.

Mr. Owens?

Mr. Owens. Thank you very much, Professor Orszag. Your comments have common sense power that is hard to challenge and you have a lot of scientifically gathered facts and data to back them up. But I still hear Nobel Prize winning economists says investment is more important than giving money for unemployment. You have in your discipline folks who still give those crazy arguments. Common sense will tell you that if consumers are the engines of our economy, then when consumers can't consume, you have got a major problem. It seems to me that it is obvious. But we keep getting those arguments.

Ms. Woods, I am concerned. I am curious about the Philadelphia Unemployment Project. Is that a help organization that is working with people who are unemployed?

Ms. Woods. It is an organization that prepares people for their resumes, interviews, getting them set up on the Web site.

Mr. Owens. Does the Federal Government fund it?

Ms. Woods. Yes, it does.

Mr. Owens. Does it? Does the government fund it?

Ms. Woods. I'm sorry. No, it doesn't.

Mr. Owens. You made $19.11 an hour before.

Ms. Woods. I held four positions on my last job of eight years at Webcraft Technology in Bristol, PA. Those positions were planner, mechanical layout, MAC operations, and training.

Mr. Owens. I just want to contrast your monthly pay then versus what you get from an unemployment check. What was your paycheck per month?

Ms. Woods. Per month? I would say $3,000.

Mr. Owens. What is your unemployment check now per month?

Ms. Woods. About $1200.

Mr. Owens. $3,000 vs. $1200?

Ms. Woods. Yes.

Mr. Owens. Thank you. I also just wanted to add, Mr. Sweeney, that there are some Members of Congress who certainly have experienced unemployment as adults and also a childhood full of layoffs and unemployment. My father worked at a furniture factory, and they had a union at one point and then they busted the union and after that he never made more in his whole life than what the minimum wage was. That is all they paid him.

And they were always being laid off in the cycle and the cycle seemed to come more frequently. And it seems he was always laid off and hunting for odd jobs, et cetera. And so some of us have an idea what it is like and are quite disturbed by the fact that we rushed to take care of the airline industry. People were shedding all kinds of crocodile tears about it. But even then we could not get the employees of the airline industry included in that package. They promised to take care of it tomorrow. Tomorrow has not come yet. And they now talk about taking care of airline employees in a bigger package for the unemployed overall.

But they are not talking about 39 weeks. We had progressed that far when I came to Congress, the unemployment benefits were about 39 weeks then. We are going backwards in terms of the kind of benefits that are being supplied now. When I was a child, we were very poor and had no health care for example. My mother died at 37 because her kidneys failed and there was no such thing as dialysis available. But now a poor person can at least rely on the government providing dialysis and health care treatment, which may be not as good as we would like to have, but for the poor it is like so much better.

Progress was made in that area and even though they are trying to cut health care here and there, it has not rolled backwards. We have made progress in the area of benefits for workers and the unemployed and we have gone backwards and that disturbs me greatly. We have gone backwards. Part of what is supposed to take care of this problem, the Workforce Investment Act, is all tied up with welfare reform. People who were suffering before are going to be suffering even more now because as they had expected they are off the rolls and are expected to go find a job and have to compete with the people who had jobs just yesterday and now are unemployed.

So, my question is, Mr. Sweeney, do the workers who have jobs and the labor movement in general have some way to really get the message about the agony that is going to keep coming

for quite a while? I am not too sure we are going to be out of this by the third quarter of next year or whatever the economists are predicting. This is not just a matter of economic common sense to give more money to people who are the major consumers, but there is also a question of fairness and justice in an economy that has plenty. In a Nation that is prosperous, why should we have to tolerate this kind of suffering?

You know, that is the other issues of moving to make certain that people understand how awful this is that our government, which has so many resources, is refusing to make them available. I guess I ran out of time. You can at least make a comment.

Mr. Sweeney. I would be very happy to make a comment. We asked the same questions that you are asking. The labor movement and our government and management in the past have worked very closely together in times of crisis and in recessions. We have always come together pretty closely, pretty quickly in terms of addressing all of the areas that had to be addressed. It seems to have changed. There seems to be a different attitude among some about how workers deserve to be considered, and that is what our members feel all across the country. There is anger.

We saw how much workers came together since September 11 and yet, while they are grieving, they feel very strongly about what is happening to so many of their fellow workers in different industries and different parts of the country. There is a very negative feeling out there that this is going to get a lot worse, and that the Congress is delaying addressing these issues in a meaningful, fair and just way. We just don't understand why there is this attitude and why it is taking so long.

Mr. Owens. Thank you.

Chairman McKeon. Mr. Roemer.

Mr. Roemer. Mr. Sweeney, nice to see you again. I appreciate your attendance here today. Mr. Hannah, and Ms. Woods and son, we really appreciate your heartfelt testimony and our hearts are with you in your difficult times.

In the Midwest where I come from, born and raised, we are going through really tough times. Our State budget used to have about a $2 billion surplus. We are now looking at possibly a billion dollar shortfall. We are having a very difficult time with steel mills being shut down and people being unemployed and out of work, and hearing Ms. Woods' testimony being repeated over and over and over again throughout all our neighborhoods and communities. We feel the statistics of 236,000 manufacturing jobs having been lost in this country very deeply; 236,000 people out of work.

I have a mid-sized town in my district of about 25,000 people and the name of the town is LaPorte, Indiana. This would be every person in that town being unemployed by a factor of about 10. Ten times LaPorte, Indiana and you have the number of people out of work in the manufacturing sector alone in this country. So we really see the difficulty in the Midwest about

the Mr. Hannahs and the Ms. Woods and the people going through extremely difficult times right now.

We need to do something about it as a Congress, as the House of the people, the workers. What really irritates me is this so-called stimulus package where we have a proposal, and that package that will cost Mr. Hannah and Ms. Woods and me about $23 billion called sub part F. What it does is, long and short, it gives a huge tax break to primarily banking companies and insurance companies to keep their money out of the United States. If they reinvest it in the United States, which is what a stimulus package should do, they lose the break. But if they keep the money in Europe, they get $23 billion.

How does that help our workers? How does that help our neighborhoods and our families and the people going through the pain that you folks are going through? Mr. Sweeney I know you're aware of sub part 3 sub part F. What would you do with $23 billion? How would you help our workers?

Mr. Sweeney. Where do you want me to start?

Mr. Roemer. You have all my time; I don't know how much I have left.

Mr. Sweeney. About the manufacturing industry, Congressman, Michael Hannah talked a little bit in his testimony about the loss of manufacturing jobs and what is happening in terms of the bankruptcies that are going on and the impact of trade policy on that industry. I am not sure whether you were here. No region of our country has been hurt more than the Midwest, and we see it in so many manufacturing industries. And that, of course, is a longer discussion in terms of what we do to address the concerns of the manufacturing industries, both the management as well as the workers. We would be delighted to share some of our information with you on that as well. But as far as the $23 billion, to add that to the package would be a great boost for achieving what we think is a fair and just worker protection program.

Dr. Orszag. I would just add, of the somewhat more than $20 billion in costs in that sub part F provision, only $260 million occurs in 2002 raising even more questions about why that is stimulating in the short run. I think this is one of the prime examples of something that may or may not be warranted in the long run, but is clearly not stimulating and has no part to play in the stimulus bill.

Mr. Roemer. Thank you, Mr. Chairman.

Chairman McKeon. Thank you.

Mr. Scott?

Mr. Scott. Thank you, Mr. Chairman.

Mr. Sweeney, in your testimony you cite Melanie Fiedler, who you say worked part-time for many years and lost her job and didn't qualify or may not qualify for unemployment

compensation. Can you explain how someone can work for many years on a job and lose a job and not get unemployment compensation?

Mr. Sweeney. I don't have all the details with me, but there was also a period of time when she was on maternity leave, and I am not sure of how the whole work experience came out in the end. But all I do know is that she didn't qualify for unemployment insurance. But I will be happy to get the specifics. They are a couple that live in Chicago, both worked for United Airlines.

Mr. Scott. Well, just in general, if someone works part-time for many years and loses their job and does not commit when looking for a job to be available full-time, are they ineligible for unemployment compensation because they did not, or were not willing to work full-time? They just wanted to continue part-time?

Mr. Sweeney. I think that they could be working part-time and meet the criteria for unemployment insurance as well.

Mr. Scott. But if they say they are unwilling to work part-time, full-time, they would be ineligible to receive Unemployment Compensation because they were not willing to work.

Mr. Sweeney. I think it is more the consideration about the number of hours and the number of days worked rather than the distinction between part-time and full-time.

Mr. Scott. Well, the distinction would be what you are willing to do as a condition of the work search requirement, and if you are searching for work, but you are not willing to commit to full-time, in many States you are not eligible for unemployment compensation because you aren't willing to work full-time.

Now, Dr. Orszag, you indicated in your testimony that 40 percent of the unemployed don't get any benefits. And 18 percent of low wage unemployed don't get benefits. How does that happen?

Dr. Orszag. Well, just to follow up on your first question, in 31 states if you are looking for work part-time, you would not qualify for unemployment benefits. That is one of the ways in which the 40 percent number occurs.

Let's take a mother who went back to work, came off the welfare rolls and can arrange for child care in such a way that she can only work 30 hours a week. She has been working 30 hours a week for 10 years. It doesn't matter how long. She becomes unemployed and needs to continue looking for 30-hour-a-week employment. In basically 31 States, that person would not be eligible to receive unemployment benefits as long as she truthfully told the person interviewing her that she was looking for work for 30 hours a week. That is one of the ways in which that occurs.

It is also the case that as part of the system, you need to have worked a sufficient number of quarters. For new entrants into the labor force, the way the system is set up now, in many

States, they don't actually look at your most recent quarter of work or even the penultimate quarter of work. They are looking back further than that, and so if you just entered the workforce last year you are often ineligible because of that reason or if you leave your job for what is not determined to be good cause.

Let's say that your husband needs to move jobs and you want to follow along with your husband, in many States that would disqualify you for unemployment insurance. So there are a whole host of reasons for why we have witnessed this seminal decline in the percentage of the unemployed who receive benefits that Mr. Miller had referred to at the opening.

Mr. Scott. Well, in the House-passed bill, we provided substantial funding for unemployment compensation. As I understand it, the way the bill is worded, it would be an option for the States to use the money for unemployment compensation. In that bill, how would we be assured that money would actually go to additional benefits or not?

Dr. Orszag. No. The House legislation would accelerate payments from the Federal trust fund into the State trust funds, and there is no guarantee that that would then feed through into higher benefits or expanded benefits at the State level. In fact, the Congressional Budget Office scored the proposal at a fraction. Something like 15 percent of the $9 billion that was provided from the Federal Government would actually feed through into actual additional expenditures, so no, there is no guarantee. I think that is a hope.

The Senate legislation actually makes sure that there will be additional benefits provided and expansions in eligibility. The House provision does not.

Mr. Scott. Thank you, Mr. Chairman.

Chairman McKeon. Ms. Woolsey.

Ms. Woolsey. Thank you, Mr. Chairman. Thank you, panel.

I am afraid you are preaching to the choir here. Some on the other side of the aisle were here earlier, but I would suggest need to hear this even more than we did. And I wish they were here. Your responses have been very telling and very informative to us. Now, of course the first people in our workforce that will be affected by a poor economy will be women, particularly women with children working their way off welfare. And that is why over the last 5 years when I was asked what did I think of how well welfare reform was working, I would say, well, pretty good if it doesn't matter that we are taking individuals from welfare to poverty, but at least they are working.

But wait until we have a turndown in the economy. Then we will know how well the welfare-to-work system and what it accomplished has worked. Well, we are here. And we are going to be faced not just with wonderful workers like you who have been working and earning good wages, but now we are going to have the poorest of the poor looking for work. Linda, you were somebody earning $19.11 an hour, if there is any work to be had you are going to be

offered that entry-level job.

Ms. Woods. Like I said, I will be going to an interview tomorrow being offered $6.50.

Ms. Woolsey. Well, my point is that when we reauthorize welfare reform, I think we have to add education and training to that. So I am sure, and I would guess, President Sweeney, that you and probably Dr. Orszag, know what jobs in this country are going unfilled that would require additional training, additional education, retraining. I mean, are there jobs that if we did it right, we could put people in that would pay a livable wage and not bring people in from outside the country for example? John?

Mr. Sweeney. Well, we are doing a lot of work in States and cities around the country. We just this week opened up a one-stop employment office in conjunction with the District of Columbia where we have employers mostly in the hotel and tourist and service industries coming in, and unemployed workers are being interviewed for jobs. It is a very slow process and there aren't an abundance of jobs out there. But we are doing everything we can to stimulate filling jobs and affording opportunities for unemployed workers to be able to go through a process that is not too complicated. It remains to be seen.

We are doing some studies internally on just what the job opportunities and the projections are and what industries and what kind of training. We will be doing this on a continuing basis and supplying that information to you and all the Members of Congress.

Ms. Woolsey. Thank you.

Doctor, has Brookings Institute done any studies do you know?

Dr. Orszag. I don't know that we project employment opportunities, but what I would add is that research does show that for experienced workers and for programs that focus on marketable skills, training programs can be effective. It is important to design them right.

There was an excellent study that the chief economist at the Department of Labor conducted in 1995 called, if I remember right, "What is Working" or "What Works and What Doesn't", trying to provide a guide to what works and what doesn't in terms of training programs. So well designed training programs can be quite important and effective in aiding workers to find new positions.

Ms. Woolsey. Thank you.

Michael and Linda, have you looked at jobs that you weren't qualified for but if we had this training available for you, you would have gotten them?

Ms. Woods. Well, the jobs that I have applied for I was told that I was overqualified.

Ms. Woolsey. Sure. That is the double whammy, isn't it?

Ms. Woods. Yes, it is.

Ms. Woolsey. Michael?

Mr. Hannah. I really haven't looked at any jobs. I haven't actually been laid off yet.

Ms. Woolsey. Oh, that is right you told us that. I am sorry.

Mr. Hannah. But I was laid off earlier in the year and I didn't go out and look too much for work then because at that time, it was supposed to be a 2-month layoff, and it went on and on until it was eventually over 4 months. But this time I will be looking for work because I don't know how long this will last, and I may possibly have to go into something else because manufacturing jobs are just hard to find in my area. So it is possible I will have to look into some kind of retraining this time.

Ms. Woolsey. Well, I would suggest, and I know I am out of time, that when the Federal Government looks at expanding unemployment and we get behind doing it properly, and when we reauthorize welfare reform, that we add the component of educating and training and retraining as key components for getting people into jobs that pay a livable wage. So I thank you very much.

Mr. Sweeney. If I may, Mr. Chairman, I think you should really keep that in mind in terms of the reauthorization of TANF when it addresses the welfare-to-work issues and how this all ties into the employment situation and job creation.

Ms. Woolsey. Thank you, Mr. President. I intend to. Thank you.

Chairman McKeon. One thing I should mention. When we passed the Workforce Investment Act a few years ago, we set up the one-stop shops. We held a hearing just a month or so ago regarding the huge shortage of nurses and we already know that there is a big shortage in teachers. I had two constituents come up to me and thank me. These were both laid-off aerospace workers, which is real big in our area. One of them had gotten a voucher from a one-stop shop and was going to be a teacher, and the other one was going to be a computer operator. So both had taken advantage of retraining, and that is something we really encourage because there are fields that are crying for good people.

Mr. Andrews?

Mr. Andrews. Thank you, Mr. Chairman. I want to thank the witnesses especially our visitors who traveled here from far away today. Thank you for doing so. I know it was at some hardship to your families. I apologize for not being present for your oral testimony, but I have had a chance to read it.

Ms. Woods, I am a neighbor of yours from across the Delaware River in south Jersey. We have always considered Philadelphia to be a suburb of our area, so we appreciate seeing you here. I also appreciate seeing Mr. McKeon. I have to note my disappointment for the record at

the absence of participation from the majority side of the aisle. You know, since we have been in the minority, we have endured a number of hearings where most of the points of view expressed were not in agreement with ours. But we came. And I think it is unfortunate that more Members of the majority side are not here to hear these presentations.

I want to begin, Mr. Sweeney, with your thoughts about the proposed timing of bringing to the floor the trade authority negotiation bill, which I think very much relates to the question before us today. I am planning on voting against that bill because I believe that it is not in the best interest of our country or our economy, and I know that is the position the AFL-CIO as well. But I wonder if you could tell us your views on the timing of bringing this very difficult question before the Congress at the present time.

Mr. Sweeney. Well, you know my views on trade promotion and authority. And I feel strongly that this is not the right time to bring the issue up. We are striving, or are supposed to be striving for bipartisanship. And we are going to continue to wage a strong campaign mobilizing our rank and file workers, many of whom have been directly impacted as Michael has been and as manufacturing industries have been.

I don't know whether you were here earlier when I really expressed my concern for the length of time that it has taken to address worker protection since September 11 and how the problem has gone far beyond September 11 with the downturn in the economy. I just don't understand why the Congress isn't reacting to this crisis a lot faster than they are and why there isn't a stronger sensitivity to the fairness and justice issues. I would agree with you, the fact that our Chair is here with one side empty is, I think, an indication that there are Members of Congress who are really not concerned about workers and the suffering and struggle that they are going through. I think this is as clear an indication as you can get.

Mr. Andrews. It is hard to fly with only one wing.

Mr. Hannah, I want to ask you about COBRA benefits and problems, if I read your testimony correctly. If you were to be laid off as some of your coworkers have been and you chose to stay in the health care plan through COBRA, the premium would be $529 per month; is that correct?

Mr. Hannah. That's correct.

Mr. Andrews. How much of a monthly unemployment benefit do people in Alabama get when they are laid off?

Mr. Hannah. The maximum we can get in Alabama is $190 a week. And that is what I will get, the maximum.

Mr. Andrews. At $190 a week, the monthly would be $760 a month.

Mr. Hannah. Right.

Mr. Andrews. So out of a $760 unemployment check, some of which, by the way would be taxable if you had other income, you would have to pay a COBRA premium of $529 a month. Do you have a mortgage?

Mr. Hannah. I do. I do have a mortgage.

Mr. Andrews. I assume that it is greater than the difference between $760 and $529?

Mr. Hannah. Yes.

Mr. Andrews. Does your family eat?

Mr. Hannah. We do right now.

Mr. Andrews. Pay utility bills?

Mr. Hannah. Correct.

Mr. Andrews. How long do you think your savings would last you, if you didn't have a job? How long would you be able to pay that COBRA benefit, do you think?

Mr. Hannah. Well, I am ashamed to say that I don't have much savings left after going through a layoff early in the year. My wife went through a period where she couldn't work and became disabled, but to tell you, just to be honest, I can't do it at all. I will immediately go without insurance because I can't pay it one month. And I am kind of ashamed to say that, but that is just the way it is.

Mr. Andrews. I don't think you should be ashamed. I think we should be ashamed of ourselves for a situation where that has to be. The other point I would make about the false economy of this is if, God forbid, you got laid off and someone got sick, the public would probably wind up paying the bill one way or the other. And it seems to me it would be a lot less expensive to help people pay the COBRA benefits now, than wait for them to get sick and run up a huge hospital bill.

Thank you, Mr. Chairman.

Chairman McKeon. Thank you.

Ms. Sanchez?

Ms. Sanchez. Thank you, Mr. Chairman. And I thank my colleague for a couple of minutes. I have to run over to the Senate side for a Senate confirmation hearing. But I did want to ask a couple of questions of the Doctor.

When I first ran for Congress 5 years ago, I came across a household where the gentleman told me that he had been in an aerospace union in California and made $18 an hour

with benefits, and that now he was doing two part-time jobs at $6 an hour and $7 an hour with no benefits. And you know, we had this great time of prosperity and yet for a lot of people, especially service industry people, there was no prosperity or they didn't really feel it. And now we find because of tourism, for example in the Disneyland area, that we are losing job after job after job.

Before I came to Congress, I ran my own business. And I always found, Doctor, that I made business decisions not necessarily on the tax consequences that were going to come 12 months or 16 months down the road, but on how I could get a product and put a profit level on it and mark it up and get it out into the field. I would hire people according to what kind of business I had on demand or forecasted in the coming months, not whether I was going to make money at the end of the year or whether I was going to pay taxes on it or not.

Is that what you usually find with businesses around the country? That they are actually going on a month-by-month rather than a tax consequence impact? How much would a business decide today's expenditures and today's level of employment based on what types of taxes they will be paying 18 months down the road?

Dr. Orszag. Well I think, as someone who has also run a small business, the answer really depends on the size of the business. For small businesses, I think the tax consequences, especially the more that they are pushed into the future, probably don't have that much impact on decision-making processing.

For larger corporations, arguably the tax consequences are more important. But I would note even when they are important, they don't necessarily dominate the demand conditions facing the firm. In other words, to say that the firm will consider taxes is not to say that taxes are more important than how many people are buying their products. But I think the short answer to your question is it really does depend on the size of the corporation with larger corporations taking into account tax consequences somewhat more than smaller corporations.

Ms. Sanchez. So if we wanted to do an economic stimulus package and we wanted to really hit at the heart of what I have seen, at least in the last decade, that more jobs or jobs in the local economy are certainly created by smaller and medium-sized businesses, wouldn't you say that incentives as far as capital purchases might be more important for business than a tax consequence at the end of the year?

Dr. Orszag. I am not sure I fully understand the question. But let me just say that I think any stimulus plan should not be in the form of corporate tax incentives. The one corporate tax incentive that I think might make some sense has to do with an incentive for capital purchases. But it has to be designed right and the House version of it is not designed correctly.

Ms. Sanchez. Since it extends out 3 years, one could really wait 3 years to do the purchase rather than to purchase now and create demand in the economy.

Dr. Orszag. Precisely. It makes no sense to extend something when it costs more and is less effective when you need it.

Ms. Sanchez. Thank you.

And Mr. Hannah and Ms. Woods, I will direct my question to Mr. Hannah. He has already talked about getting $190 a week maximum in Alabama and about a $529 COBRA payment if he were to try to extend his health benefits after he is laid off. What is the average cost would you say of a mortgage or monthly rent in Alabama for a family home?

Mr. Hannah. Roughly, I would say probably $700.

Ms. Sanchez. $700? Well, I would just say that in California our average unemployment weekly benefit is about $167 a week. And the average of a one-bedroom apartment where I live is about $1200 a month. So as bad as it is in Alabama, and as hard as it is going to be to feed your family, and to keep the COBRA payment and exhaust your savings, it is even harder in other places of the country. So we and Mr. Sweeney and everyone else absolutely need to do something right now.

I agree with you and I hope you will continue to talk even with Members who are not here today about the importance of getting this done quickly and getting it done for workers.

Thank you.

Chairman McKeon. Mrs. McCarthy.

Mrs. McCarthy. Thank you. There is one thing I want to say up front. Just because we are questioning a disagreement on why we should be taking care of our workers, I don't think we should question how patriotic any Member here, or any Member in this House is towards the President and the war. And I am saying that because every time we raise a point of disagreement on how to do the stimulus package, someone is questioning my patriotic duty towards my country. And I am sorry; I am tired of hearing that.

The terrorist attacks happened in New York. I have had to go to too many memorial services because I have lost too many constituents. So I have to say that. I am as patriotic as anybody in this building, but that does not mean that I don't disagree on how we are going to take care of the American people and this down spiral that we are going through.

By the way, we also are seeing an awful lot of layoffs of people that are making what they used to think was a decent living. My brother-in-law got laid off two weeks ago. He is an engineer. He and his wife, my sister, just came to the realization that they don't have enough money to pay the mortgage anymore. They live on Long Island. So, I mean, when we talk about workers in this country, we have to make sure we take care of every single worker.

Now Ms. Woods, you have one more paycheck left?

Ms. Woods. Yes, I do.

Mrs. McCarthy. Okay. What I am concerned about and the way that you understood what the House stimulus bill is or what the President is trying to do as far as unemployment, is that you would not be qualified for the 13 extra weeks?

Ms. Woods. No, I won't.

Mrs. McCarthy. The other thing that I am curious about with regard to your son who has already run out of unemployment even though he is going to a training program, is how can most people get through those training programs if they have no stipend to get through the program? I heard the statement, you could look into nursing or teaching, which I certainly would recommend because I have been a nurse all my life. But I don't know how anyone can go into those training programs if they have no stipend or unemployment to get through the program.

So I think that is something that we have to look into for the future. If you are doing a training program, you should be on unemployment during the whole time. If you are taking a nursing course, especially if you are going to be an LPN or an RN in a 2-year course resulting in an associate degree, no one that is on unemployment can take that time because they have to work to pay for an apartment. So we have things to do in the future.

We had a meeting this morning of our budget group, so it is a pleasure seeing you again, Dr. Orszag.

The other thing that I am curious about, and I want to go back to it, because I think it is important that we stress again the reasoning on taking care of the working people of this country and how important it is that the monies go to them to keep the economy going. Sometimes I don't think people hear this. I certainly supported everything that we are doing to try and get unemployment for our people, but how the dollars are actually sent into the economy is what the American people have to hear constantly, over and over again. It is not just unemployment. It is to get the economy going, and that is what we are supposed to be doing.

Would anyone care to answer?

Dr. Orszag. Sure. First let me just comment very briefly on the President's proposal. One of the things I wasn't able to say because I diverted from the oral testimony that I was going to give is that the number of people exhausting benefits in the third quarter of 2001 was 735,000 workers. That is up 40 percent from the third quarter of 2000. So we have seen a dramatic increase in the number of workers who are exhausting benefits, and that of course will continue to happen. Under the President's proposal, no one would get extended benefits until March of next year.

In terms of what unemployment benefits does for the macro economy or in terms of stabilizing the macro economy, this is one of the highest "bang for the buck" things that we could do in terms of stimulating economy. The key to stimulating the economy in the short run is to get extra spending, and the one thing about unemployed workers, unfortunately, is if you

give them extra money they are going to spend it. It is unfortunate from their perspective. It is fortunate from the macro economy's perspective. So the key reason that unemployment benefits are an effective stimulus measure is that for each extra dollar that you provide in unemployment benefits, an extremely high percentage, and I would say virtually all, will be spent. That creates demand for other goods and services, which then keeps more workers employed, which then creates more demand for other goods and services and is a virtual cycle.

Mrs. McCarthy. One of the things that I was curious about is that we have had recessions before. How has the government responded in past performances to try and get the stimulus going? Has the government done what we are doing today as far as giving money more to the corporate end versus giving it to our workers to get out there and spend?

Dr. Orszag. To my knowledge, I am not aware of any. In general, there are two components to the government's response. One is a series of things that happen automatically like the existing unemployment insurance system automatically responds. The tax system to some degree automatically responds. What we have seen in past recessions, like the 1990-1991 recession, is the government also went ahead and made additional expansions in the unemployment insurance benefit, which was obviously targeted towards lower income workers. I am not aware of a single attempt during a recession to spur that economy by very tilted benefits towards the upper end income distribution in the past. There may well be, and I will get back to you when I return to my office if find one. But nothing is coming to mind.

Mr. Sweeney. If I may ask Peter a question, hasn't there been some extension of the number of weeks and also some subsidizing of COBRA?

Dr. Orszag. I am not aware of any subsidizing of COBRA. There have been extensions of weeks in unemployment benefits. That happened in 1990-1991, and that is actually an important point if I could just emphasize it for a moment.

There are a series of triggers under the current law for an extended benefits program. Under unemployment insurance the Federal Government would share costs with the State governments. The triggers, however, are basically completely outdated. They are not going to take effect. In 1990-1991 the Federal Government created a special program to extend unemployment benefits, and that is what is necessary again here.

Chairman McKeon. Thank you. Time is up on Mrs. McCarthy.

Ms. Solis?

Ms. Solis. Thank you. Thank you, Mr. Chairman, and welcome, President Sweeney, and the very articulate panelists that came here today. I too want to apologize that we don't have a full house for you. I have been waiting to have this discussion on the floor for the past 3 months.

Unemployment rates in my district right now are high. They were high even before September 11, upwards of 7.3 percent in one of my smallest cities and anywhere between 9 percent and higher where we have high numbers of low income and minority workers and

families. So this is something that some of us live with in our districts. The fact that we went through this terrible tragedy has made a big impact on our area and it will continue to have an impact.

I was very pleased to attend a recent program that the Hotel and Restaurant Workers Local 11 had in downtown Los Angeles. Because of the recent layoffs there, I saw the union pool forces to put their own one-stop operation together to help dislocated workers. What I was very concerned about though was that a large number of those individuals would not qualify for unemployment insurance. They also would not be able to get any other Federal benefits.

So I asked the question how is this stimulus program going to get to those people who may have children, who are here, who are legal, who are documented parents who are working in the various industries that you have talked about? What recourse do we have for them?

I am also wondering about some of the States. The Governors may not be astute enough, and I hate to put it in that manner, but some may not know that this money may be able to be targeted in a different fashion. Maybe we need to funnel it through a local CVO that is affiliated with a union that works at the grass roots level to help reach those families, because what I am seeing right now is just the tip of the iceberg, so to speak.

I am very concerned about that, and I want to hear from Dr. Peter Orszag regarding rebates. I have a stand-alone bill right now that would give a $300 rebate to anybody that pays into the Federal payroll tax system. So if you paid $1,000 this year, and you didn't accrue enough to get unemployment insurance benefits, you will get $300 back. I wonder how quickly something like this can be expedited?

Dr. Orszag. Sure, just to respond to the last question first. In my opinion, a rebate aimed at the people who were left out of the first series of rebates, who paid payroll tax but didn't have sufficient income tax liability to receive the full rebate that went out this summer would be a quite effective stimulus. Basically that is focusing on lower income workers. Lower income workers tend to spend more of any additional dollars that you give them than higher income workers. So focusing money in that way would be quite effective.

In terms of the timeliness, there are various different responses I have gotten from the IRS and others in terms of how quickly this could be processed. They are currently in the process of moving from processing one year's set of tax returns and gearing up for the next years. But if this was a national priority and the Congress told them to do it, I am sure that it could be done quickly. Obviously we are not in a 9:00 to 5:00 setting anymore, and things that weren't thought to be achievable before certainly are now with sufficient effort. So I can't give you a precise answer as to exactly how quickly it could go out, but it could be relatively quick, especially if there were sufficient instruction from the Congress to get it out fast.

Ms. Solis. It is doable?

Mr. Sweeney. We share your concerns about those who will be left out. The question is what kind of a stimulus package are we going to get and just how harmful will it be to hundreds of thousands of people who get left out of the process? How do we address their issues and their needs?

Ms. Solis. Thank you.

Chairman McKeon. I mentioned earlier the Workforce Investment Act that we passed through this Committee a couple of years ago. Under that a State may provide need-based payments for those who exhaust their unemployment benefits and are involved in the training process. So the benefit is there to be used.

Mr. Tierney?

Mr. Tierney. Thank you, Mr. Chairman. I was just noting earlier one of the amazing things in life here is that when it came time to so call "try" to stimulate the economy, we were very quick to give a rebate going back to 1986 to corporations that were already remarkably profitable, and here we are arguing about whether or not to give a rebate to individuals who are just trying to make ends meet. It would have been interesting if Congress had instead addressed the concept of giving Ms. Woods and Mr. Hannah rebates on all the taxes they paid since 1986. I think it would be a different situation.

I don't know that we have to keep beating the same dead horse. I think the point is clearly made despite Mr. Isakson's remarks. I wish he were still here. This is very much political. It doesn't have to be political, but they have made it political and they have decided that that is the route that they are going to take. In the face of all reasonable economic policies, they have decided to give huge amounts of money back to already profitable corporations that will not stimulate the economy, instead of taking any action to help people like Ms. Woods and Mr. Hannah.

I just thought what I might try to do for the record is get a feel from Mr. Hannah and Ms. Wood. Put into words if you would, how you feel as individuals affected by this turn of events and the economy when you find out that corporations like General Electric and IBM are getting hundreds of millions of dollars back in taxes that they have already paid at a time when they are profitable, when you sit before us today having to make the case to just get treated fairly at all.

Mr. Hannah. Speaking for myself, it is just hard to understand the reasoning that you would want to give these corporations that much money when they are already so profitable and people are in need. You know, I would just like to say that the people I represent, and I think workers in general, don't want welfare. We are not asking for welfare. We are just asking for some help to get past this temporary problem we are in. And to us it doesn't seem like the corporations need the help like we do. So to me it is very unfair.

And I want to add something else too. It is difficult in my situation, being an older person, to be working for the employer I have for so many years. A lot of people don't want to hire a person that has been working for an employer for so many years. They know that if there

is a recall you will go back and they don't want to invest time training you and that type of thing. So it is just an unfair situation, in my opinion.

Mr. Tierney. Ms. Woods?

Ms. Woods. The same here. Like I said, I have worked for a long time and put into the system, and I feel as though, like I said, the system should help me now. I am with Mr. Hannah. I don't want unemployment. I would rather work. I am used to working, and not just me like I said. I have instilled in my son to work and give his best. Right now we both need help.

Mr. Tierney. Thank you. I want to explain that I was not being rude when I left earlier. I happened to be meeting out back here with some individuals from Lucent, which used to be a large employer in my district and is not about to be any longer, trying to get them to understand that point that you just made, Ms. Woods. It is not enough to tell us what kind of severance you are giving people when you are taking away their job. The question is how are they going to get work? What are they going to do next and how do they make themselves survive between now and then, which may not be 13 weeks?

What is your current health care situation? Are you covered at all?

Ms. Woods. Not at this time, and I need to be. I have medications that I need to take and, like I said, I can't afford COBRA.

Mr. Tierney. Do you know what COBRA would cost you on a monthly basis?

Ms. Woods. $200.

Mr. Tierney. And you said earlier that your monthly benefit was?

Ms. Woods. $1,200, and I am the head of household.

Mr. Tierney. Sir, are you also on COBRA now or without insurance?

Mr. Hannah. No, I still have coverage until the end of the month. I won't be laid off until the end of the month so my health care will go through that date, and I need the health care but I won't be able to afford it. Like I said, it is $529 per month and my wife is disabled so there is no way. I badly need to keep my health care. She is disabled and takes some very expensive medication, and it is just going to be difficult.

Mr. Tierney. Doctor, I don't have any questions for you. I want to thank you for your testimony. Mr. Sweeney, I want to thank you for all of your time and commitment. You have a large job ahead of you because there are many Americans that are facing the same situation as Mr. Hannah or Ms. Woods are, and this Congress ought to be working on that side of the equation.

Thank you.

Dr. Orszag. Thank you.

Chairman McKeon. I believe Mr. Payne is the last Member here with questions.

Mr. Payne. Right. Thank you very much, and I certainly won't take much of your time. I was in and out meeting with people from my district who have been hurt by the economy. We in New Jersey are going to be hit pretty hard being right across the river. We are looking at a new Governor that has come in and we are looking at the biggest deficit that the State has been faced with in the past 15 years. It is really going to be a tremendous impact on us in New Jersey.

I don't have any questions. I am sure they have all been asked. We commend you, Mr. John Sweeney, for the way that you have brought the AFL-CIO back into the mainstream and have really been there working for the working people.

This is a time when we are talking about patriotism, and I think Americans have shown that they are really patriotic. When people attack us and come after us, we show what we are made of. We are not going to let anybody push us around. We are not going to get accustomed to the new reality, we are going to fight back. We are made out of the right stuff. We are not going to let some guys over there change our ways.

However, it would appear to me that at a time like this when we are all pulling together, I have seen more flags in my community in the most depressed part of the neighborhood. We had a political meeting, and they wanted to start by singing the Star Spangled Banner. I am sure in this corner the Star Spangled Banner has never been sung, but it was sung a couple of weeks ago at this political meeting and that is how all Americans are feeling.

But then you turn around and you have people take advantage of the situation by passing a tax which makes no sense at $1.4 billion for IBM because they paid some taxes 10 years ago. Why take advantage of a situation like this? This is a time we should be pulling together as Americans. You have got people out there saying, I am ready to go whatever the cost, and you have got politicians taking advantage of people, saying, no, we don't want to have this done, we are going to do this. It makes me sick, and they ought to be ashamed of themselves.

People working all their lives don't know where to go. Where are you supposed to go when you don't have health care? Where are you supposed to go? Go to church basements and stand in line to get some food. Where do you live? Your landlord, the guy you rent from, has a past due mortgage. How is he going to pay the heat bill? But we have got people sitting here holier than thou. They are all for family and good things. We are the bad guys. We are all for this big tent everybody's in. We are the good, clean, righteous Americans, and they take advantage.

It is wrong, it is absolutely wrong, and I don't even want to get started. I am glad I wasn't here most of the time. But anyway, let me just say we are with you, we are supporting you. We are going to do the right thing for Americans who make this country great. This side of the aisle

is not going to turn their backs on people. And if it takes 2 months, 2 years, whatever, we are going to make sure that we take care of the people who are on the front lines for us. They are taking guys from the National Guard, and no one thought they were going to have to go anywhere, and we don't know where they are, but they are there for our country. Why isn't our country there for our people? It is wrong, and we have got to right it.

Chairman McKeon. Mr. Kildee?

Mr. Kildee. Mr. Chairman, I ask unanimous consent that the statement of Ms. Solis and two other documents be included in the record.

Chairman McKeon. No objection. So ordered.

At the start of the meeting, the Chairman asked that the record be held open for 14 days so anybody that had anything that they wanted to include in the record would be able to do. So I reserved my time to the end so everybody would have a chance to have his or her say. Now I would like to have my say.

I guess I could apologize that there aren't more Republicans here. Everybody here makes up their own mind what they are going to do with their time, and we had Members come and go, they had Members come and go. They had more stay the whole time.

Unemployment doesn't just hit Democrats or just hit Republicans or Independents or the Green Party or whatever. It hits everybody. I have a son-in-law that has been out of work now for a few months. I have a son that was out of work this year for several months. I have a son that is living with me while he is trying to get his own business working, and so I think I understand a little bit of what you are talking about. I myself did not go through a period of time in my life where I was unemployed because I, most of the time, was working for myself. So you are not unemployed, you are just without income, and I understand what that means to be without income.

And you know we hear stories about our parents and some of the tough things that they have gone through. So did my parents when they mortgaged their house and started a business and then went weeks without having money to buy groceries. We have all had some tough times, and I think we all should pull together and try to help each other.

I appreciated Mr. Sweeney saying this isn't political, but obviously it is, and that is unfortunate. You were all selected as witnesses for the Minority, and we had a witness here a few weeks ago for the Majority. When I came to Congress, I wasn't involved in this before at all, and I kind of thought naively that all Republicans would always work together and all Democrats would always work together, and most of us most of the time would try to work together for the people of the country. And I have had the rude awakening that that doesn't happen.

I thought after September 11, it seemed for about a week or so we really did pull together, and now we have split apart again, and we are fighting over a lot of different things; some of it is ideological, and some of it is political. It is unfortunate because people like Ms.

Woods and Mr. Hannah pay the price while we fight over these things. I don't know the solution, but it is important that we come together.

You know this, Mr. Sweeney. Most of your support goes to them, and most of this today has been directed back and forth, and we have become the scapegoats on this side. But I went to a meeting with our local teachers union. I said, you know what, in the last election in California you supported 43 Members for election and every one of them was a Democrat, and a few other districts you didn't like. My district you didn't talk about. When all the support goes one way, then it seems like we get separated. The representative of that union called me after that little discussion and said, you know, you are right, maybe there is something we could do together. And we sat down and worked out a bill that I have introduced with Mr. Berman, and we are really doing it in a bipartisan way to help people with a problem they have with Social Security.

And I think that there are more things that can be done in a truly bipartisan way, but we have got to get over this beating up on each other every time we turn around, because that drives us harder into positions, and in the meantime we have people out of work that are suffering. So I hope that some positives come out of this today, that it's not just a negative chance for people to get some sound bites, and that we really do some things to help the people that are out of work.

I thank you, I thank our Members, and I thank the witnesses for your valuable time and participation. If there is no further business, this Committee stands adjourned.

Whereupon, at 4:21 p.m., the Committee was adjourned.

APPENDIX A - WRITTEN STATEMENT OF CHAIRMAN JOHN BOEHNER, COMMITTEE ON EDUCATION AND THE WORKFORCE

MAJORITY MEMBERS:
JOHN A. BOEHNER, OHIO, Chairman
THOMAS E. PETRI, WISCONSIN, Vice Chairman
MARGE ROUKEMA, NEW JERSEY
CASS BALLENGER, NORTH CAROLINA
PETER HOEKSTRA, MICHIGAN
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JAMES C. GREENWOOD, PENNSYLVANIA
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MARK E. SOUDER, INDIANA
CHARLIE NORWOOD, GEORGIA
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DAVID WU, OREGON
RUSH HOLT, NEW JERSEY
HILDA A. SOLIS, CALIFORNIA
SUSAN DAVIS, CALIFORNIA
BETTY McCOLLUM, MINNESOTA

MAJORITY—(202) 225-4527
(TTY)—(202) 225-6972
MINORITY—(202) 225-3725
(TTY)—(202) 226-3116

COMMITTEE ON EDUCATION
AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES
2181 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6100

STATEMENT OF THE HONORABLE JOHN BOEHNER
CHAIRMAN
COMMITTEE ON EDUCATION AND THE WORKFORCE

November 14, 2001 ing On:

"ECONOMIC RECOVERY AND ASSISTANCE FOR WORKERS – MINORITY DAY"

Thank you all for joining us today for our continued discussion on assistance for workers.

This issue remains a matter of urgency for all Americans.

Even in the time since our previous hearing on October 16th, during which Labor Secretary Elaine Chao testified, we have seen new evidence of the impact that the terrible attacks of September 11th have had on our economy and our workforce.

The Department of Labor recently released unemployment figures for October. The unemployment rate rose to 5.4 percent, with hundreds of thousands of additional individuals now unemployed. We know that our economy already was softening prior to the attacks, particularly in manufacturing. However, in the aftermath of that fateful day, other sectors have been impacted dramatically. A sharp decline in travel and tourism has hit our service sector the hardest.

I am sure we all have heard from individuals in our districts seeking assistance with finding employment or help for their families. Congress has worked for years to create a workforce development system to assist in such times, and through the existing one-stop career centers, workers can access a variety of services and safety net programs created to help dislocated workers.

However, we all agree and are committed to making sure that our system is seamless and no worker or family falls through the cracks.

We know the goal of dislocated persons is to find new work, and our efforts must be geared toward that effort. In that light, I would like to reiterate something that Secretary Chao stated in her testimony before us last month. Our emphasis must be on rapid response with assistance that is immediate, effective and targeted at the problem at hand. Any steps we take should build upon our existing workforce development system without creating new, permanent programs to address the needs of workers impacted by September 11 – particularly when expensive new programs could have unintended negative consequences for our economy. We must ensure our compassionate response is focused on giving families the tools and the opportunity to find jobs.

President Bush and Labor Secretary Chao have outlined a series of reasonable steps Congress should take to strengthen the safety net for displaced workers as they look for work. The Administration's proposal is designed to help workers across all industries that have lost their jobs as a result of the events of September 11th, by putting people back to work and providing needed income support and access to health care. These proposals will provide needed additional resources while maintaining flexibility in the current system.

Recently, I introduced H.R. 3112, which would enact part of the President's plan. The bill would increase the National Emergency Grants within the Workforce Investment Act of 1998 by $3 billion. These flexible funds could be used to pay up to 75 percent of the cost of health care coverage for up to 10 months for dislocated workers, provide additional weeks of income support for individuals who have exhausted their unemployment compensation or do not qualify for such payments, and provide additional dollars to offer a full array of job search and training activities.

I remain concerned about creating new programs that require new administrative structures and lead to implementation delays. The Administration's plan can be implemented immediately because it builds upon the existing workforce development structure. Some may feel that it does not provide enough long-term relief. However, we know that it will provide months of real relief for workers, during which time we can evaluate the status of the economy and determine if further action is necessary and appropriate.

Today, we welcome witnesses testifying at the request of our Members of the minority. We look forward to hearing their perspectives on how we can assist American workers.

In addition, I look forward to continuing to work with members of this committee to provide hope for workers and their families in these difficult times.

APPENDIX B - WRITTEN STATEMENT OF RANKING MEMBER GEORGE MILLER, COMMITTEE ON EDUCATION AND THE WORKFORCE

Opening Statement of Congressman George Miller
Senior Democrat, Committee on Education and the Workforce
"Economic Recovery and Assistance to Workers"
November 14, 2001

Today, the Committee on Education and the Workforce is having a unique hearing: the first hearing called this year by members of the Democratic Caucus to look into the serious economic deterioration impacting our country and our working men and women.

This hearing offers us a chance to reshape the economic stimulus legislation that does not adequately address the urgent needs of millions of jobless American working families. The October increase in unemployment was the largest in over two decades adding more than a half million jobless to the 1.1 million jobs lost this year prior to September 11th.

Only a few weeks ago, the House of Representatives passed a stimulus bill that lavished billions of dollars on the wealthiest of Americans -- the same fortunate few who enjoyed most of the tax cut passed earlier this year by this same Congress -- while offering crumbs to the hundreds of thousands who have lost their jobs and whose families are on the brink of economic catastrophe.

The criticism of that House stimulus bill was by no means partisan in nature. This is a bill that, in the words of the **Wall Street Journal**'s November 1 editorial, "mainly padded corporate bottom lines." No less a conservative writer than Kevin Phillips, compared the House-passed bill to "war profiteering" passed "in the phony name of economic stimulus ... Over three-quarters of the hundred billion [dollars cost] goes for business and upper income objectives ... The only real solution is a public outcry, tens of millions of pointing finger and voices saying, 'Shame!'" And that's just the *conservative* critique of the bill this Republican House of Representatives voted that provides $2.3 billion to Ford Motor Company, $1.4 billion to IBM, $830 million to General Motors, and $671 million for General Electric.

But under the Republican bill, Larry Johnson won't get a dime. Larry Johnson doesn't work in the corporate boardroom. He cleaned the bar and polished the floors at the World Trade Center, and now he's out of a job *and* denied unemployment benefits by New York.

There are hundreds of thousands of Larry Johnsons, and something is very wrong here. While 97 percent of employers pay into the unemployment funds, less than 40 percent of workers nationally receive unemployment assistance, a substantial drop over the past 25 years. And in some states, the percent that qualify is much lower than that. Workers in the new economy - younger, immigrant, part time, lower-income, short-term - are especially hurt by inadequate UI coverage. And economists are predicting another 1.5 million could lose their jobs in the next 9 months. Even for those who do qualify, benefit levels are often below the poverty line, leaving millions of suddenly unemployed Americans facing poverty, joblessness and homelessness.

The Republican response to this crisis has been the antidote of Herbert Hoover: help the rich and the poor will benefit from the improving economy. Prosperity is right around the corner. But we were not elected to ignore the suffering of our constituents.

When will the Congress hear the voices of our desperate countrymen and women and demonstrate its concern for the real victims of this recession? First, the House passed a $1.4 trillion tax cut, mainly for the wealthy. Then a $38 billion bail-out for the oil, gas, electric and nuclear power companies that earned more than $1.6 trillion last year. Now, a "stimulus" bill that showers tens of billions more on the wealthiest and most powerful in our nation, and only a fraction for genuine "stimulus."

This afternoon, this Committee will hear some of those neglected voices, beginning with the distinguished president of the American Federation of Labor-Congress of Industrial Organizations, John Sweeney. President Sweeney is one of the most knowledgeable spokesmen in this nation for the needs and concerns of working Americans. Welcome President Sweeney.

APPENDIX C - WRITTEN STATEMENT OF MICHAEL HANNAH, PRESIDENT, LOCAL 13358, UNITED STEELWORKERS OF AMERICA, BIRMINGHAM, AL

STATEMENT
MICHAEL HANNAH,
PRESIDENT, LOCAL 13358
UNITED STEELWORKERS OF AMERICA
BEFORE THE
COMMITTEE ON EDUCATION AND THE WORKFORCE
US HOUSE OF REPRESENTATIVES
HEARING FOR ECONOMIC RECOVERY AND ASSISTANCE TO WORKERS

NOVEMBER 14, 2001

My name is Michael Hannah, and I am a member of United Steelworkers of America Local 13358 in Birmingham, AL. My employer, Butler Manufacturing, a maker of pre-engineered metal buildings, recently notified me that effective November 30, I would be laid off from my job indefinitely.

This layoff of 98 workers will be the third mass layoff at my plant in the last two years. Our company explained this upcoming layoff is because of decreased business levels directly related to the September 11th terrorist attacks. The layoff is expected to last six to eight months -- and possibly longer. In January of this year, I was among a group of 148 employees laid off for a four-month period, during which time I received unemployment benefits of $190 per week. I now have only seven weeks of unemployment benefits remaining in my state eligibility. It seems very likely in this next layoff period that I will run out of unemployment benefits before being recalled to my job.

The number of initial weekly jobless claims filed in Alabama rose by 51.1% from September 1 to October 27 -- and these numbers are climbing. With the unemployment rate rising in Alabama, the prospects of finding a decent-paying job in my area are not very promising. It's especially tough when prospective employers hear that I have over 29 years of service with my employer and that I intend to return there when I am recalled from layoff.

It's my opinion that the 26-week maximum benefit period is not sufficient, especially during this time of rising unemployment levels. With the weekly unemployment compensation benefit level in my state being so low, I expect to have some very tough times ahead of me. I can only hope that our government will see the need to provide unemployed workers with additional benefits that would help us to provide for our families as we suffer through the repercussions of the September 11th tragedy. We desperately need a federal extension of weekly benefits. We also need increased benefit levels, especially in states such as Alabama, where the maximum benefit is only $190 per week.

Another problem that I'll have is a lack of health insurance during the period I am unemployed. If I choose to keep my health insurance coverage, the COBRA rate that I would have to pay would be $529 per month. There is no possible way I can afford to pay COBRA for the several months that I expect to be off work. My wife is disabled due to a back injury that requires frequent doctor visits and some very expensive medication. It will be a real challenge for me to see that she gets medical care during my layoff. I feel that our government should assist people with insurance costs in these situations, so that they could keep their medical coverage during a temporary period of unemployment.

PAGE 2--MIKE HANNAH, TESTIMONY, U.S. HOUSE, EDUCATION & WORKFORCE COMMITTEE, HEARING FOR ECONOMIC RECOVERY, NOVEMBER 14, 2001

I've been an industrial worker for 29 years, and I have witnessed a steady decline of many manufacturing jobs in Alabama. According to my reading of recent reports, the United States lost 1.3 million manufacturing jobs between July 2000 and October 2001, with another 142,000 manufacturing jobs being lost in the month of October. As a proud American worker, I place blame on our government's failed trade policies and the changes in our economy.

As the elected president of my local union at Butler Manufacturing, I represent 149 workers. There are currently 51 workers who have been on layoff for periods of nine to 21 months. Over the past few weeks, I have become aware of some of the problems and financial troubles the laid off members I represent are now having. Many of our workers at Butler Manufacturing have exhausted their unemployment benefits.

Among the workers in their mid-to-late 20's with families to look after, who are currently on an indefinite layoff at Butler Manufacturing, are the following:

- Aaron Knight -- His family has no insurance. He has a wife and two children, a four-year-old and a newborn. His wife works part-time. His unemployment ran out three months ago. He is looking for work and doing odd jobs when he finds them. For the past few months, he has been borrowing money from family members to pay medical expenses.

- Charles Hydrick -- He has a wife and child. He works part time doing construction work (two-three days a week). His wife works but makes low wages. He was laid-off in January and applied for unemployment benefits, but didn't qualify due to an earlier layoff of several months. They have no medical insurance.

- Kenneth Copeland -- He has a wife and two children. His wife doesn't work. They have no insurance. His unemployment benefits ran out in July. He found a job and worked for one month before again being laid off. His employer has no idea when he can include him in a plant recall. No unemployment benefits are available to him because he did not qualify under the state rules.

These people are my friends and my co-workers. They are mothers and fathers and grandparents. They need and deserve the full consideration and help of our government.

I'd like to take this opportunity to appeal to our U.S. President and our Congress to pass legislation that would provide immediate assistance to all unemployed workers regardless of where they live. Give us the help we need by extending and increasing our unemployment benefits, and please assist us with a 100% COBRA subsidy to allow our families to keep our health insurance. Thank you.

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APPENDIX D - WRITTEN STATEMENT OF LINDA WOODS, ON BEHALF OF THE PHILADELPHIA UNEMPLOYMENT PROJECT, PHILADELPHIA, PA

Philadelphia Unemployment Project
1201 Chestnut St. Room 702
Philadelphia, PA 19107
(215) 557-0822

Testimony of Linda Woods Laid off Printer from Philadelphia representing the Philadelphia Unemployment Project.

My name is Linda Woods and I was employed in the commercial printing and advertising industry for 18 years until the current downturn in the economy. As of May 5, 2001, I was laid off from my job at Webcraft Tech of Bristol, Pennsylvania. I had worked there for 8 years and was making $19.11 per hour. My health insurance was stopped one month later. I cannot afford the COBRA payment of $200 per month, which means I currently have no insurance of any kind. I could really use government help in paying for my health insurance.

Two weeks prior to my lay off, my son, Anthony, was laid off from his job. He had worked at a hotel and an auto parts factory. His hotel job went first and then his job in the auto parts factory ended with him being laid off in May. This means that my

family is entirely out of work. My son has recently returned to school for retraining in your PHAME Program. He is studying to be a mechanical engineer. My question for you is how does the system offer him retraining for 13 months and unemployment benefits for only 6 months? As a parent, how am I to help him and myself survive? Parents are supposed to be the backbone of their children. How can I be there for him without employment? Also, my son got his last unemployment check 2 weeks ago. At this point, I carry a lot of anger in my heart toward the way the system is set up for the working person.

I myself have only one unemployment check left right now. I have looked everywhere for work and can find nothing that pays anywhere near what I've been making. I have a second job interview on Thursday at the Ritz Camera Shop to develop film for $6.50 per hour. I cannot pay my bills on $6.50 per hour, but what choice do I have? Someone told me to wait on taking this job because an extension of unemployment is coming. If I start

working for $6.50 per hour, which I cannot live on, I cannot quit my job to go back for the unemployment extension.

My question for you on behalf of myself and millions of others is **when will this legislation take effect?** You might have a lot of time, but I do not. Laid off Americans need help now!

I also understand that under President Bush's proposal only people laid off after September 11 would qualify for the extension. The fact is, that the economy started declining way before September 11. Hundreds of thousands of workers like me were affected by the economic downturn, long before terrorism was big news in America. There are no decent jobs and unemployment is rising everyday. We need an extension badly.

Also, 13 weeks is a good start, but in 1991, workers got 33 weeks of extended benefits. In the 1983 recession, the unemployed got 23 weeks and in the 1975 recession, workers got 39 weeks extra. This recession is just getting started and we will need more than 13 weeks

The recession is looks like it will be lasting. We will need a serious extension like in every other recession. We need help with our COBRA so that we can afford health insurance. We need the government to step up and help us until jobs are available again. That is the minimum you should do. Thank you.

APPENDIX E - WRITTEN STATEMENT OF JOHN J. SWEENEY, PRESIDENT, AFL-CIO, WASHINGTON, D.C.

TESTIMONY OF AFL-CIO PRESIDENT JOHN J. SWEENEY

Before the United House of Representatives

Committee on Education and the Workforce

November 14, 2001

On behalf of the 13 million working men and women of the AFL-CIO, I appreciate the opportunity to join you today to share our views on what our nation needs to put America back to work.

The tragic events of September 11 shocked and horrified the nation and the world. The union movement joins with civilized people everywhere in deploring the heinous attacks and in mourning the loss of innocent lives and the loss of national innocence occasioned by the attacks. In just a few short hours, thousands of workers were murdered at the start of the new workday; hundreds lost their lives in valiant and selfless attempts to save others. Nearly 1000 union members were among those who died. And since September 11, hundreds of thousands of workers have lost their livelihoods in the economic crisis that has engulfed the nation and that threatens the entire world.

We know that nothing compares with the incalculable and incomprehensible losses suffered by the September 11 victims and their families; we are powerless to ease or erase their pain. We are not powerless, however, to respond to and reverse the disastrous economic consequences of that day. We can do so with a comprehensive economic recovery package that boosts the economy while providing support where the needs are greatest. First, we must provide ***real*** assistance for laid off workers and their families. This is not only the right thing to do, it is the most powerful antidote to a sagging economy. Next, we should provide direct aid to state governments, which face staggering budget shortfalls at the same time demands for their services increase. We should provide tax rebates for lower paid workers and their families who did not participate fully – or at all – in the first round of rebates earlier this year. And, we must invest in building, renovating and modernizing the nation's sadly neglected infrastructure to boost our national security, to meet critical needs and to create jobs.

These are the things we should do. However, there are other things that we must not do. We should help industries that are suffering, but we must not pass another industry bail-out that fails to address the needs of workers who are hurting too. And, no one should seek to take advantage of this painful moment in our national life and of our collective desire for unity to push through costly, divisive and ill-advised tax cuts for the

well-to-do that ignore the needs of working families and that do little, if anything, to improve the economy.

On September 11 and every day since then, workers have been front and center in the nation's campaign against terrorism. We owe it to them – and to the memory of those who died – to ensure that working families are also front and center in our national campaign to rebuild the economy and put America back to work.

An Economy In Crisis

Even before the September attacks, there was clear evidence that the economy was almost dead in the water. In August, unemployment reached 4.9 percent, its highest level in four years. Job creation was negative for the third month in five; the manufacturing sector lost 141,000 jobs; industrial production fell for the eleventh straight month; and consumer confidence dropped sharply.

The terrorist attacks on the World Trade Center and the Pentagon and their devastating impact on consumer confidence, travel, and tourism accelerated and amplified the downturn. There is no doubt we have entered a recession. Unemployment jumped to 5.4 percent in October, the biggest one-month jump since 1980. Job losses were felt in all industries and many occupations. Manufacturing declined for the 15th consecutive month, bringing total losses in that sector to 1.3 million jobs since July 2000. The retail sector lost 81,000 jobs, and the service sector, 110,000 jobs.

Since September 11 alone, corporations have announced close to 700,000 layoffs. While many (more than 137,000) are in the transportation sector, reflecting the stark decline in air travel, an almost equal number are among workers in the hospitality, tourism and entertainment industries. Many of these are low wage workers, who must have a strong safety net of unemployment insurance and health care assistance just to get by in times such as these.

The numbers tell one part of the story about the crisis working families face. Now, I'd like to give you a few examples that breathe life into these numbers:

- Melanie and Peter Fiedler are both laid off employees of United Airlines. Melanie was laid-off on November 1, and Peter, shortly before September 11th. The Fiedlers have four children, ranging in age from 7 months to 7 years old. Peter receives about $400 per week in unemployment insurance compensation (before taxes). Melanie will receive severance pay and employer-provided health care coverage for a limited period of time; thereafter, to maintain plan coverage, the Fiedlers will have to make a $575 monthly COBRA payment. Melanie may not qualify for unemployment insurance because, although she was employed by United for ten years, she worked part time in order to care for her children. In addition, her recent maternity leave may hurt her UI eligibility. Last year, the Fiedlers earned more than $70,000. Now, their income with Peter's unemployment insurance will be only about $1,600 per month. With regular

monthly expenses of at least $1,400, there is no way they will be able to afford a $575 per month COBRA premium unless they receive a sizable subsidy.

- Hyancinth Vanriel works as a guest room attendant at the Boston Park Plaza Hotel. She has not been called in to work since the September 11 attacks. Ms. Vanriel is a single mother of four children younger than 17 years old. She earned $11.53 per hour at the Park Plaza. She will be unable to meet her COBRA payment of $966.12 per month when she loses her employer-provided insurance soon.

- Last week, the *Los Angeles Times* reported that at a Thursday job fair, held in a restaurant ballroom close to LAX, more than 1,000 job seekers had shown up looking for work.. A recruiter for FedEx Corp. reported that by early afternoon, she had talked with at least 200 potential applicants. Many unemployed workers with college degrees were applying for entry-level jobs, she said, and even some airline pilots had given her their resumes, saying they would "take anything."

The stories of workers such as these are being repeated countless times over in community after community around the nation. These are men and women who have worked hard and played by the rules. They are not looking for a hand-out, just for what they have earned and what they deserve: support to help them and their families during this crisis. This, we believe, is the American way.

The Right Response: Economic Recovery That Puts Families First

Shortly after the September 11th attacks, the AFL-CIO convened a Special Committee on Economic Security to assess the needs of working families and union members during this period of economic crisis. The committee received and considered reports from front line workers in a number of locations and industries hardest hit by the attacks and the ensuing economic debacle. Based on these, we developed a proposal for economic recovery that we believe will do the most to help the economy and help working families, without generating huge future deficits or undermining our capacity to invest in meeting needs in the future.

The AFL-CIO and its affiliates support sound and sensible tax and spending policies that will help those most in need, revive the economy, promote long term growth, and meet long neglected and unfilled social needs. First, we should increase assistance to workers who have lost or will lose their jobs during this downturn. Unemployment insurance benefit levels, duration and coverage must all be improved dramatically. Today, only around one-third of unemployed workers collect unemployment insurance benefits, and those payments replace only about one-third of a worker's lost wages. Assisting the unemployed is not only the right thing to do, it will put money into the hands and pockets of those who need it and who will spend it. Each dollar paid out in the form of unemployment insurance benefits boosts GDP by $2.15.

Committee on Education and the Workforce

Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name: John J. Sweeney		
1. Will you be representing a federal, State, or local government entity? (If the answer is yes please contact the Committee).	Yes	No X
2. Please list any federal grants or contracts (including subgrants or subcontracts) which you have received since October 1, 1998: None		
3. Will you be representing an entity other than a government entity?	Yes X	No
4. Other than yourself, please list what entity or entities you will be representing: President, American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)		
5. Please list any offices or elected positions held and/or briefly describe your representational capacity with each of the entities you listed in response to question 4: None		
6. Please list any federal grants or contracts (including subgrants or subcontracts) received by the entities you listed in response to question 4 since October 1, 1998, including the source and amount of each grant or contract: None		
7. Are there parent organizations, subsidiaries, or partnerships to the entities you disclosed in response to question number 4 that you will not be representing? If so, please list:	Yes	No X

Signature: John J. Sweeney Date: 11-13-01

Please attach this sheet to your written testimony.

John J. Sweeney
President, American Federation of Labor and Congress of Industrial Organizations

John J. Sweeney was elected president of the AFL-CIO at the federation's biennial convention in October 1995. At the time of his election, he was serving his fourth four-year term as president of SEIU, which grew from 625,000 to 1.1 million members under his leadership. An AFL-CIO vice president since 1980, Sweeney was born May 5, 1934, in Bronx, N.Y.

Sweeney's trade union career began as a research assistant with the Ladies Garment Workers. In 1960, he joined SEIU as a contract director for New York City Local 32B. He went on to become union president and to lead two citywide strikes of apartment maintenance workers. In 1980, Sweeney was elected president of the international.

APPENDIX F - WRITTEN STATEMENT OF PETER R. ORSZAG, JOSEPH A. PECHMAN SENIOR FELLOW, THE BROOKINGS INSTITUTION, WASHINGTON, D.C.

"Economic Stimulus and Unemployment Insurance"
Testimony before the Committee on Education and the Workforce
United States House of Representatives

Peter R. Orszag[1]
Joseph A. Pechman Senior Fellow
The Brookings Institution

November 14, 2001

Mr. Chairman and Members of the Committee, it is an honor to appear before you to discuss current economic conditions and proposals for economic stimulus. In my testimony, I evaluate stimulus proposals using a series of common-sense principles for an effective stimulus package.[2] These principles reflect the idea that an effective package needs to do two things: maximize the extent to which it directly stimulates new economic activity in the short term, and minimize the extent to which it harms the long-term budget outlook. Similar principles have been endorsed by the Chair and Ranking Member of the House Budget Committee, as well as by the Chair and Ranking Member of the Senate Budget Committee, in a recent statement.[3]

If anything, recent economic releases have underscored the importance of these principles. Real Gross Domestic Product fell during the third quarter of 2001 and employment declined substantially in October.[4] It seems clear that we are now in the midst of a recession, highlighting the benefits of a timely stimulus package. But according to professional forecasters, the slowdown is expected to be temporary – with the economy recovering sometime next year.[5] The expectations of professional forecasters, of course, can be wrong, but they are the best we

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[1] Dr. Orszag (porszag@brook.edu) is the Joseph A. Pechman Senior Fellow in Tax and Fiscal Policy at the Brookings Institution. The opinions expressed represent those of the author and should not be attributed to the staff, officers, or trustees of the Brookings Institution. I thank Gary Burtless, Jen Derstine, William Gale, Bob Greenstein, Jon Gruber, David Gunter, Richard Kogan, Alan Krueger, Wendell Primus, Isaac Shapiro, Gene Sperling, and Diane Whitmore for helpful discussions, comments, and/or joint work on these issues.

[2] This testimony draws on work with William Gale and Gene Sperling of the Brookings Institution. See William Gale, Peter Orszag, and Gene Sperling, "Stimulating the Economy Through Tax Policy: Principles and Applications," The Brookings Institution, October 5, 2001; William Gale, Peter Orszag, and Gene Sperling, "Tax Stimulus Options in the Aftermath of the Terrorist Attack," *Tax Notes*, October 8, 2001; William Gale and Peter Orszag, "Evaluating President Bush's Tax Stimulus Package," The Brookings Institution, October 9, 2001; Peter Orszag, "Evaluating Economic Stimulus Proposals," Committee on the Budget, U.S. Senate, October 25, 2001; William Gale, "Perspectives on the Tax Stimulus Debate," Committee on the Budget, U.S. Senate, October 25, 2001; and Gene Sperling and Peter Orszag, "Unemployment Insurance and Fiscal Stimulus," The Brookings Institution, November 7, 2001.

[3] "Revised Budgetary Outlook and Principles for Economic Stimulus," Senate Budget Committee (Senator Kent Conrad, Chairman; Senator Pete V. Domenici, Ranking Member) and House Budget Committee (Rep. Jim Nussle, Chairman; Rep. John M. Spratt, Jr., Ranking Member), October 4, 2001.

[4] Some recent data, including the most recent release of the University of Michigan's consumer sentiment index and the most recent data on initial claims for unemployment insurance, suggest that the rate of economic downturn may be tapering. It should be noted that these data are very volatile, so that conclusions based on a limited number of observations could well be misguided.

[5] For example, the Blue Chip consensus of leading economic forecasters now projects negative growth in the fourth quarter of 2001 (which, given the negative growth in the third quarter, would produce a recession under the informal definition of that term). But these same forecasters also project robust growth by the end of next year, with growth of over 3 percent in the third quarter of 2002 and 4 percent in the fourth quarter of 2002.

have at this point. They strongly suggest that any stimulus should be focused on the next six to nine months, when the economy most needs the assistance.

Recent budget updates also highlight the importance of maximizing the bang for the buck and ensuring minimal costs to long-term fiscal discipline. A recent analysis released by the bipartisan leadership of the House and Senate Budget Committees showed that with the costs of the recently passed tax cuts, measures to combat terrorism, and the weaker economy, the United States will be unable to have a balanced budget without the use of Social Security surpluses until 2007.[6] The situation is far worse once the expected costs of fixing the individual alternative minimum tax and other expected costs are incorporated into the analysis: A recent paper that I co-authored with Bill Gale and Gene Sperling of Brookings suggests that the deficit outside Social Security may amount to about $1.5 trillion over the next 10 years under reasonable assumptions that incorporate these other costs.[7] Within this new budgetary context, tax or spending measures that have long-term costs and are not tightly tied to stimulating demand during the next nine months seem inappropriate and misguided.

The appropriateness and effectiveness of all stimulus options should thus be judged on the degree to which they bolster demand during the current short-term economic downturn without damaging the long-term fiscal picture. In that context, my testimony evaluates a variety of stimulus proposals, with a focus on proposals to expand or extend unemployment insurance.

Temporary spending expansions as economic stimulus

Spending increases represent an alternative form of fiscal stimulus to tax cuts. In analyzing spending proposals, it is important to draw a distinction between transfer programs (such as unemployment insurance or Social Security) and direct government spending on goods and services (such as purchasing military equipment or building roads). Simple Keynesian economy theory suggests that direct spending increases will generate *more* bang for the buck than tax cuts or transfer programs.[8] The reason is that some of any tax cut or transfer payment will be saved, dissipating its positive impact on the economy in the short run, whereas the full amount of government spending on goods and services will directly add to demand.

For transfer programs, the principles for evaluating their stimulus impact should be similar to those used to evaluate tax cuts: In particular, any expansion in transfer programs should be temporary (to limit the long-term budgetary cost) and should maximize their immediate effect on spending. For government spending on goods and services, the key issue is how quickly the money can be spent. Indeed, in terms of its immediate impact on the economy,

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[6] "Revised Budgetary Outlook and Principles for Economic Stimulus," Senate Budget Committee (Senator Kent Conrad, Chairman; Senator Pete V. Domenici, Ranking Member) and House Budget Committee (Rep. Jim Nussle, Chairman; Rep. John M. Spratt, Jr., Ranking Member), October 4, 2001.

[7] William Gale, Peter Orszag, and Gene Sperling, "The Changing Budget Outlook: Causes and Implications," Brookings Institution, October 11, 2001. Richard Kogan of the Center on Budget and Policy Priorities has reached a similar conclusion. See Richard Kogan, "Where Has All the Surplus Gone?" Center on Budget and Policy Priorities, November 1, 2001.

[8] See, for example, Peter Orszag and Joseph Stiglitz, "Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession," Center on Budget and Policy Priorities, November 6, 2001.

the specific category in which the government spending arises appears to make little difference.[9] A secondary issue is that among those programs that have rapid spend-out rates, those that provide larger economic benefits in the long run are generally preferable.

Unemployment Insurance

The Unemployment Insurance (UI) program was created during the Great Depression as part of the Social Security Act of 1935. It was designed to attenuate the hardships of involuntary job loss and stabilize the economy by supporting the consumption patterns of the unemployed. Benefits and eligibility are determined at the state level under Federal guidelines, with a majority of the program's funding effectively coming from state-level employer taxes. In addition to these state-level employer taxes, the Federal government imposes an unemployment insurance tax of 0.8 percent of covered wages.[10]

Eligibility is open to workers whose employers contribute to state unemployment insurance funds, federal civilian employees, and former military service members, as long as the workers are unemployed for "good cause" and are able, available, and looking for work. Under all state laws, the weekly benefit amount varies within certain minimum and maximum limits and is calculated as a function of the wages earned in one or more quarters of some base period (which is typically the first four quarters of the last five completed calendar quarters preceding the claim for unemployment benefits). During sound economic times, most states replace 40 to 50 percent of previous wages for up to 26 weeks of unemployment.

Not surprisingly, job loss is often associated with a decline in consumption, which then reduces demand for other goods and services as part of a negative cycle of increasing unemployment and declining economic activity. The unemployment insurance program helps to break this negative cycle: By partially compensating for lost income, it attenuates the reduction in spending and demand that unemployment can cause. For example, according to research undertaken by MIT Professor Jonathan Gruber, the amount a family spends on food falls by 7 percent, on average, when the head of a household becomes unemployed – but would decline by 22 percent in the absence of unemployment benefits.[11] Since food is a necessity, spending on other items is presumably even more sensitive to the onset of unemployment.

The macroeconomic counter-cyclical benefits of the UI system have been corroborated in recent studies. One recent study commissioned by the Department of Labor concluded that UI

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[9] For example, the one-quarter multiplier for defense purchases, non-defense purchases, and state and local purchases in the United States were estimated to be 1.24, 1.36, and 1.24 respectively – suggesting little difference in the immediate economic impact from the different types of spending. See Christopher Sims, "Annex A: Identifying Policy Effects," in Ralph Bryant, Dale Henderson, Gerald Holtham, Peter Hooper, and Steven Symansky, eds., *Empirical Macroeconomics for Interdependent Economies* (The Brookings Institution: Washington, 1988), page 314.

[10] Technically, the Federal government imposes a 6.2 percent gross tax rate on the first $7,000 of earnings, but then provides a credit to the employer for 5.4 percent of those earnings – so that the effective Federal rate is 0.8 percent. The state employer taxes vary by type of employer, and the state taxes have different wage bases. For example, the tax in Arizona is imposed on the first $7,000 of earnings, but the tax in Alaska is imposed on the first $25,500 of earnings.

[11] Jonathan Gruber, "The Consumption Smoothing Benefits of Unemployment Insurance," *American Economic Review*, Vol. 87, March 1997, pages 192-205.

has had a significant impact in dampening recessions.[12] Another recent study found that, for its size, the unemployment insurance system is remarkably effective as an automatic stabilizer.[13] The study found that the unemployment insurance system provides roughly 25 percent of the automatic stabilizer impact as the entire tax system, despite the fact that UI benefits are only about 1.5 percent to 3 percent of the size of total Federal revenue.

Unemployment insurance benefits are well-targeted in several ways. In particular, they are received only by unemployed workers, they accrue disproportionately in areas and industries that have been the hardest hit by the slowdown, and they automatically decline as unemployment rates do.[14] This targeting explains why temporary *expansions* in unemployment benefits would provide additional stimulus to the economy. Most importantly, households with an unemployed worker have usually experienced a significant decline in income – so that their spending exceeds their current income. The unemployed are therefore likely to spend a high percentage of any additional income received during the period of unemployment. As Nobel prize-winning economist Joseph Stiglitz recently wrote in the *Washington Post*, "give money to people who have lost their jobs in this recession, and it would be quickly spent."[15]

In summary, unemployment insurance benefits are a particularly effective stimulus: They are concentrated on those with relatively high propensities to consume, and translate quickly into higher spending and additional demand. But despite the potential for unemployment insurance to play a significant role as a stabilizing force in the current economic downturn, its effectiveness is reduced for three reasons: (1) The triggers for additional weeks of benefits beyond 26 weeks are excessively tight; (2) eligibility rules are outdated and often prevent part-time workers from receiving benefits; and (3) benefit levels are relatively low.[16]

1. Extending the duration of unemployment benefits

Extending the duration of UI benefits beyond 26 weeks may be counter-productive in sound economic times. For example, Lawrence Katz and Bruce Meyer estimate that extending the duration of benefits from six months to one year would increase unemployment spells by 4 to

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[12] Lawrence Chimerine, Theodore Black, and Lester Coffey, "Unemployment Insurance as an Automatic Stabilizer: Evidence of Effectiveness over Three Decades," Unemployment Insurance Occasional Paper 99-8, U.S. Department of Labor, July 1999.

[13] Alan Auerbach and Daniel Feenberg, "The Significance of Federal Taxes as Automatic Stabilizers," *Journal of Economic Perspectives*, Vol. 14, Number 3, Summer 2000, pages 37-56.

[14] Reflecting its effectiveness as a counter-cyclical stabilizer, the UI program provides the most aid to those geographic areas with the greatest concentration of unemployment and economic distress. Communities that experience high rates of unemployment receive more stimulus in the form of unemployment insurance, thus mitigating the effects of lost wages on the local economy. Indeed, Jonathan Gruber confirms that a newly unemployed person is more likely to live in a county or state with higher unemployment than a person keeping her job. The paper estimates that those who become unemployed reside in counties and states with unemployment rates that average 10.3 percent and 8.2 percent higher respectively than those who remain employed. See Jonathan Gruber, "The Consumption Smoothing Benefits of Unemployment Insurance," National Bureau of Economic Research, Working Paper 4750, May 1994.

[15] Joseph Stiglitz, "A Boost That Goes Nowhere," *The Washington Post*, November 11, 2001, page B01.

[16] See, for example, National Employment Law Project, "Unemployment Insurance: Key Elements for an Economic Stimulus Package," September 2001.

5 weeks.[17] In sound economic times, increasing the duration of eligibility could increase unemployment and create incentive problems in the job search process. Indeed, many economists believe that Europe's high unemployment rates partially reflect the duration of benefits available there (in addition to the generosity of the unemployment insurance benefits).

The situation may be somewhat different in a deteriorating job market. As the economy slows, longer spells of unemployment more likely reflect scarce job opportunities rather than a lack of effort in finding a new job. In a deteriorating labor market, those already unemployed will find it difficult to obtain a new job no matter how earnestly they search for one. This helps explain why during spells of high unemployment, current law provides for an extension of benefits from the standard 26 weeks by an additional 13 to 20 weeks. Indeed, a system of automatic triggers was adopted in 1970 to extend benefits when insured unemployment rates – that is, unemployed workers receiving benefits as a percentage of the covered labor force – hit predetermined levels, avoiding the delays and disputes inherent in creating temporary benefit extensions. Unfortunately, the triggers were tightened so significantly in the early 1980s that they are no longer relevant in anything but a severe economic recession.[18]

Three automatic triggers exist for the extension of benefits, one of which is mandatory and the other two of which are optional for states. States are required to provide extended benefits when the state's insured unemployment rate averages 5 percent or more over a 13-week period and 120 percent of the state's average in the same period in the last two years. All but 12 states have adopted a second trigger that extends benefits if the insured unemployment rate raises above 6 percent, whether or not it has increased.

The unemployment rates in these triggers are based on the "insured" rate – which measures only those unemployed workers receiving benefits under the state's unemployment insurance program. This figure is currently 2 to 3 full percentage points below the household unemployment rate from the Current Population Survey, which is the more widely quoted and understood number. Thus a trigger defined as 6 percent for the insured rate translates into a household unemployment rate that is substantially higher – perhaps as high as 9 percent or more.

A third trigger, afforded to states in 1992 legislation and adopted by only eight states, extends the period of eligibility if the *total* unemployment rate averages 6.5 percent or higher for the three most recent months and 110 percent of the average over the same period in the past two years.

Given the declines in unemployment rates and the percentage of those unemployed receiving benefits, the triggers (especially those based on insured unemployment rates) are now excessively restrictive. As of the second quarter of 2001, Department of Labor data show that only 12 states had an insured unemployment rate (IUR) above 2.5 percent and only 5 states

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[17] Lawrence Katz and Bruce Meyer, "The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment," *Journal of Public Economics*, Volume 41, Issue 1, February 1990, pages 45-72. The estimate is based on analysis of data between 1978 and 1983, which spans periods of economic expansion and recession. The authors note that their approach may not fully reflect the impact of macroeconomic factors on the unemployment rate.

[18] See, for example, Wendell Primus, "Economic Security: Helping Working Americans and Those Out of Work," prepared testimony for the Health, Education, Labor & Pensions Committee, United States Senate, October 2001.

(Alaska, Oregon, Pennsylvania, Puerto Rico, and Washington) had an IUR above 3.0 percent, while the average IUR across states was 2.1 percent. That means 38 states would require a doubling of their IUR and five states would require at least a two-thirds increase in the insured unemployment rate to set off the automatic triggers for extended benefits. In the 1990-91 recession, a separate temporary extension program (the Emergency Unemployment Compensation program) was created because the available triggers were reached in only 10 states. As recent proposals have underscored, the current situation requires a similar program: The automatic triggers are not sufficient to address the underlying problem.

President Bush's 'Back to Work Relief Package' would extend benefits for the unemployed given that they meet certain requirements. The administration would provide an extra thirteen weeks of benefits to the unemployed if they became unemployed after September 11th, 2001, live in states where the total unemployment rate rises 30 percent above the pre-September 11th rate, or live in one of the three states (Virginia, New York, and Pennsylvania) that President Bush declared major disaster areas after the terrorist attacks.

As a stimulus measure, the Administration's approach has several drawbacks. First, because the extension of benefits from 26 to 39 weeks only goes to those who became unemployed after September 11, the extended benefits would not take effect – and therefore no additional stimulus would be provided – until March 12, 2002 at the earliest, even though forecasters project that the most vulnerable economic period will occur over the next several months. It is worth emphasizing that the number of UI beneficiaries who exhaust their benefits has been rising rapidly over the past few months; in the third quarter of 2001, for example, 735,000 beneficiaries exhausted their benefits, up more than 40 percent from the third quarter of 2000.[19] Similar unemployed workers who lost their jobs before September 11 would never receive extended benefits under the President's Back to Work plan.

Another perspective on the adequacy of the Administration's proposal is reflected in cost estimates. The Labor Department estimated that if the recession is comparable to the recession of the early 1990s, the extra weeks of jobless benefits provided by the Administration's proposal would cost $5 billion. In the 1990-1991 recession, by contrast, $35 billion (in 2002 dollars) of additional weeks of benefits were provided through the mechanism that Congress created at that time.[20]

Secondly, the President's plan would only provide benefits to newly unemployed workers in states in which the unemployment rate had increased by 30 percent above its June-July-August 2001 average. This standard undermines the important role of UI as a cushion to the most distressed areas. For example, a state with 3.0 percent unemployment over the summer of 2001 would be eligible for extended benefits if its unemployment rate climbed to 4 percent (a 33 percent increase). Yet, a far more distressed state with, say, 7 percent unemployment over the summer would be ineligible even if its unemployment rate rose to 8 percent (a 14 percent increase), even though it would then have an unemployment rate twice the level of the first state.

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[19] Communication from Isaac Shapiro, Center on Budget and Policy Priorities, November 12, 2001.

[20] Robert Greenstein, "The Administration's Stimulus Proposal: Is it a Sound and Balanced Package?" Center on Budget and Policy Priorities, October 9, 2001.

The unemployment insurance proposal passed by the House of Representatives, although potentially beneficial as part of a broader unemployment insurance package, is also inadequate in terms of meeting the likely needs of the UI program. The legislation simply accelerates the transfer of $9.2 billion to state unemployment accounts from the federal UI Trust Fund. The additional funds are supposed to provide states the option of extending benefits, but it is left as a state option and would require legislative changes in most states. Furthermore, as the Center on Budget and Policy Priorities has emphasized, "the $9 billion in funds that would be transferred to state unemployment accounts would be allocated among the states *not* on the basis of current need or unemployment levels but in accordance with where the revenues in the federal unemployment trust fund were collected. As a result, the level of funds allocated to many states would bear little relationship to the need for additional unemployment benefits for laid-off workers in those states."[21] Since many states would be reluctant to spend the transfer quickly on extended benefits, and since the transferred funds would not be well-targeted to those states that most need them, the Congressional Budget Office estimates that only $2.3 billion would be spent in FY2002.

The Senate Finance legislation would be more effective in providing an effective economic stimulus.[22] It would immediately extend benefits by thirteen weeks to the long-term unemployed, defined as those who have been receiving benefits for 26 weeks. (As of October 2001, 888,000 individuals, or 11.4 percent of the unemployed, had been unemployed 27 weeks or longer.) The proposals would provide federal financing for the extended benefits, ensuring that the extensions did not impose any additional burden on state budgets or unemployment insurance programs.

2. Expanding eligibility

For various reasons, the majority of unemployed workers do not qualify for unemployment insurance benefits. Indeed, only about 40 percent of the unemployed currently receive benefits. To be sure, a substantial percentage of the unemployed are either new entrants to the labor market or are recent re-entrants – and therefore should not be expected to receive unemployment benefits. But even unemployed workers with a recent attachment to the workforce will sometimes be excluded from unemployment insurance benefits for reasons described below. Furthermore, the eligibility rules appear to exclude low-income workers in particular: For example, according to the General Accounting Office, only 18 percent of low-wage unemployed workers were collecting unemployment benefits in March 1995, relative to 40 percent of higher-wage unemployed workers.[23]

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[21] Joel Friedman and Robert Greenstein, "Ways And Means Package Departs From Bipartisan Principles For Effective Stimulus and Offers Little Help to the Unemployed," Center on Budget and Policy Priorities, November 5, 2001.

[22] For a description of the legislation, see Senate Finance Committee, "Economic Recovery and Assistance for American Workers Act of 2001," November 6, 2001.

[23] General Accounting Office, "Unemployment Insurance: Role as Safety Net for Low-Wage Workers is Limited," GAO-01-181, December 2000, page 5. The GAO data are based on the Survey of Income and Program Participation, and are not directly comparable to the more frequently cited data on the share of the unemployed receiving unemployment benefits that are based on the Current Population Survey. The GAO defined a low-wage worker as one earning $8 per hour or less.

One eligibility restriction involves the definition of "available for work." In 31 states, part-time workers are excluded from unemployment insurance benefits because the states require that workers be available for full-time work as a condition for eligibility.[24] In such states, an individual who has been working even 30 hours a week and cannot commit to more hours – perhaps because of child care needs – is not eligible for unemployment insurance benefits, even though UI taxes had been collected on the worker's previous earnings and the person is seeking work.

Another reason many unemployed workers do not qualify for unemployment insurance benefits is that their most recent work experience is not counted in determining eligibility for UI benefits. In many states, the current quarter and the previous quarter of work are not included in the calculations that determine eligibility. Therefore workers who have recently joined the labor force are often ineligible.

These two limitations fall particularly hard on single working mothers who have just left welfare to join the workforce. Such former welfare recipients may be the first let go in an economic downturn because of their lack of seniority; the inability to count the last two quarters they work can be critical for their eligibility. Furthermore, because many are single mothers, they may have difficulty meeting the full-time work requirements discussed above. The unemployment rate for women who maintain families has risen from 5.4 percent in October 2000 to 6.9 percent in October 2001.[25]

Temporarily expanding unemployment insurance benefits to these types of unemployed workers would likely have a very high bang for the buck: Since the benefits are relatively well-targeted toward those with low incomes and without substantial assets, the additional benefits would be spent quickly. Yet the Administration's proposal and the House bill do nothing to extend unemployment insurance along these dimensions. The Senate Finance legislation would provide Federally funded benefits for workers who would qualify for benefits if their most recent quarters of work were included in their wage record, and workers seeking part-time work. The cost of this temporary change is relatively modest, but may be among the highest bang-for-the-buck components of any stimulus package.

3. Raising benefit levels

Unemployment insurance benefits are relatively low: In many cases, they fall significantly below poverty levels. The *average* unemployment benefit is just over $200 per week – which is below the poverty threshold for families with two or more people. UI benefits, furthermore, vary substantially from state to state: In Mississippi, for example, the average state benefit is roughly $150 a week – relative to roughly $300 in Massachusetts. Since benefits are only received by those who have experienced a reduction in income from the loss of their jobs and whose consumption expectations may therefore exceed their current income, an increase in benefit levels (especially in relatively low-benefit states) would spur spending and stimulate the economy.

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[24] Wendell Primus, "Economic Security: Helping Working Americans and Those Out of Work," prepared testimony for the Health, Education, Labor & Pensions Committee, United States Senate, October 2001.
[25] Bureau of Labor Statistics, "Employment Situation," October 2001, Table A-5.

As with the extension of benefits beyond 26 weeks, policy-makers should be careful in raising UI benefits during sound economic times. Economic research suggests that more generous benefits may reduce the effort that the unemployed devote to finding a job and therefore cause workers to remain unemployed longer.[26] But as with the duration of benefits, this concern appears to be somewhat less relevant in the context of an economic downturn: Given a weakening labor market, the search effort of unemployed workers will likely be a relatively less important determinant of whether they find a job than in strong economic times. Any incentive issues associated with increased UI benefits – especially if the increases are temporary – may therefore be less problematic during an economic downturn than at other times.

Modestly raising UI benefits on a temporary basis would have a relatively high bang for the buck in terms of short-term economic stimulus. The Senate Finance legislation would raise unemployment insurance benefits by 15 percent of the worker's benefit, or $25 per week, whichever is greater. But the Administration's proposal and the House legislation include no explicit provisions for increased UI benefits.

4. Summary

Expanding unemployment insurance benefits would provide economic stimulus when it is needed without damaging the long-term budget outlook. The UI program is able to target the pockets of the economy that need the most stimulus, effectively limit the decline in consumption for those who become unemployed, prevent the loss of more jobs, and dampen the severity of the recession. Temporary expansions in unemployment insurance to cover part-time workers, extend benefits beyond 26 weeks, and modestly raise benefit levels would have a high "bang for the buck" in stimulating the economy over the next few quarters.

Other low-income programs

A variety of other programs for low-income families could also be temporarily expanded as part of an effective stimulus package.[27] For example, temporary increases in funding could be provided in the Low-Income Home Energy Assistance Program (LIHEAP) for low-income families, which generally "spends out" quickly. In addition, under the 1996 welfare law, Federal TANF funding no longer rises automatically in recessions. The Temporary Assistance for Needy Families (TANF) contingency fund should be fixed and extended one year (after which it can be revised in the normal TANF reauthorization process), and funding for the TANF "supplemental grants" received by 17 of the lowest-income states should also be extended. Temporary expansions in other low-income programs would also represent an effective response to the economic slowdown.

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[26] See Anthony B. Atkinson, John Micklewright, "Unemployment Compensation and Labor Market Transitions: A Critical Review," *Journal of Economic Literature*, Vol. 29, December 1991, pages 1679-1727.

[27] See discussion in Robert Greenstein, "Observations on a Stimulus Package," Center on Budget and Policy Priorities, October 4, 2001.

Public capital investments

Public capital investments involve direct government purchases of goods and services and therefore directly inject demand into the economy. Many public investments also appear to have high social returns, and thus even temporary expansions in capital investments may carry long-term benefits.[28] The key issue from the perspective of short-run stimulus, however, is how quickly any expansion in capital spending could be implemented. The record from the response to recent natural disasters raises questions about how quickly capital investments could be made: Only 30 percent of the outlays from recent disaster appropriations occurred in the first fiscal year following enactment of the funding, with 64 percent in the second fiscal year and 6 percent in the third year.[29] The spend-out rate could perhaps be faster if existing projects were simply accelerated, but public capital investments should not be undertaken as part of a stimulus package unless the vast majority of the additional spending would occur over the next 12 months.

Revenue sharing

States are suffering substantial fiscal stress as a result of the economic slowdown. Mississippi, Ohio and South Carolina enacted broad-based spending cuts – and eight states raised taxes – in enacting their fiscal year 2002 budgets. A number of states are slated to consider additional budget cuts in special legislative sessions that have been called for that purpose. In addition, several governors – including those in Colorado, Georgia, Iowa, Maryland, North Carolina, and Vermont – have used their executive authority to reduce spending. Many more states are expected to initiate budget cuts when state legislatures reconvene this winter and confront budgets that have fallen out of balance as a result of the downturn.[30] In all states except Vermont, some form of balanced budget rule forces such fiscal policies: When the state enters a recession, revenue naturally falls and expenditures (including on Medicaid) rise. The balanced budget rules then force the state to reduce spending, raise taxes, or some combination thereof, which is counter-productive in terms of stimulating the economy.

The fiscal stress on states could be exacerbated by recent proposals. For example, provisions in the House-passed stimulus package would reduce revenue received from state corporate taxes. Some 44 states use Federal depreciation rules for their own corporate income taxes and would therefore be adversely affected by the Ways and Means proposal to provide partial expensing of business investment. Preliminary estimates from the Center on Budget and

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[28] Council of Economic Advisers, *Economic Report of the President 1994*, pages 42-43.

[29] Communication from Richard Kogan, Center on Budget and Policy Priorities, October 16, 2001, and author's calculations. The legislation includes PL 102-229, PL 102-266, PL 102-368, PL 103-75, and PL 103-211. The numbers may be distorted by the timing of the legislation relative to the end of a fiscal year, but the results still raise questions about how quickly capital investment can spend-out – which should be a crucial concern in the current context.

[30] Iris Lav, "State Fiscal Problems Could Weaken Federal Stimulus Efforts," Center on Budget and Policy Priorities, October 4, 2001.

Policy Priorities suggest that states would likely lose approximately $5 billion a year (in state revenues) from 2002 through 2004 as a result of this provision.[31]

To avoid restrictive fiscal policies at the state level in the middle of an economic downturn, the Federal government should provide temporary fiscal assistance to the states. One mechanism for doing so would be a revenue-sharing program, such as existed in the 1970s and 1980s. Such an approach may take time to design and implement, however.[32] A more-timely alternative would temporarily increase the Federal matching rate for the Federal-state Medicaid program. An enhanced match would serve two purposes. It could partially help states meet expanded Medicaid costs resulting from an economic downturn.[33] Since Medicaid costs now are rising over the levels that states budgeted for them as unemployment climbs and more people become eligible for the program, the program is widely expected to be a prime candidate for budget cuts in many financially strapped states. An increased Federal match would also partially enable states to use less of their own funds for Medicaid, which would help to avoid counter-productive tax increases or reductions in other state programs.[34]

Some form of Federal assistance to state governments would likely help attenuate the restrictive fiscal policies that would otherwise be adopted at the state level – and therefore would represent an effective stimulus.

Tax cuts as economic stimulus

Most of the tax cuts that have been proposed to stimulate the economy are unfortunately flawed from that perspective. A sound set of principles for tax stimulus proposals would:

- Design business incentives to provide incentives for new investment, rather than windfalls for old investment.

- Design household tax cuts to maximize the effects on short-term spending.

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[31] Joel Friedman and Robert Greenstein, "Ways and Means Package Departs from Bipartisan Principles for Effective Stimulus and Offers Little Help to the Unemployed," Center on Budget and Policy Priorities, October 17, 2001.

[32] After the current economic slowdown is over, Congress may want to consider designing a counter-cyclical grant program to the states that would automatically take effect if and when needed during recessions.

[33] Evidence shows that when unemployment rises during an economic downturn, the percentage of people with job-based health insurance declines. Medicaid partially compensates, as a greater number of low-income workers become eligible for it. Using Medicaid baseline spending projections by the Congressional Budget Office from April, the Kaiser Commission on Medicaid and the Uninsured informally projects that if the national unemployment rate rises by two percentage points to 6.5 percent from the 4.5 percent CBO previously assumed for FY 2002, Medicaid enrollment would be expected to increase by 3.2 million people. As a result, the economic downturn will cause state Medicaid expenditures to increase significantly.

[34] Exacerbating these problems, Federal Medicaid matching rates for more than half of the states are being reduced in fiscal year 2002. The Federal Medicaid matching rate for each state is based on the state's per capita income relative to that of the nation, as determined by Census data for the most recent three calendar years for which these data are available. The new matching rates for fiscal year 2002 are based on state per capita incomes in 1997-1999, a period when the economy was very strong. Some 29 states that experienced solid economic growth between 1997 and 1999 have just had their Federal matching rates reduced. In most of these states, however, the state's ability to finance its share of Medicaid costs is now becoming weaker rather than stronger.

- Focus on temporary (one-year) items for businesses and households, not permanent ones.

- Maintain long-term fiscal discipline.

Let me highlight just four of the components of the House-passed stimulus legislation that violate these principles. These four components – repeal of the corporate alternative minimum tax, permanent extension of the subpart F rules, reduction in the maximum capital gains tax rate, and acceleration of the 25 percent individual income tax rate – cost more than $100 billion over the next 10 years, or over two-thirds of the 10-year cost of the entire package. Yet each is fundamentally flawed as a stimulus measure.

Elimination of the corporate alternative minimum tax

Unlike investment incentives, which only give tax breaks to firms that are undertaking new investment, eliminating the corporate AMT would give tax cuts to firms irrespective of whether they are investing at all. Thus, it is very poorly targeted as a stimulus measure.

The corporate alternative minimum tax applies when corporations owe no corporate income tax because of substantial deductions or other tax preferences, relative to their income. The elimination of the corporate AMT would effectively reduce the tax rate on corporate income. But the vast majority of such income represents a return to *previous* investment, not new investment. For example, according to data from the Bureau of Economic Analysis, the value of non-residential structures, equipment, and software amounted to more than $10 trillion at the end of 1999.[35] Yet annual investment in such areas amounts to roughly $1.3 trillion. If the return from existing capital is equal to the return from new investment, and if existing capital is just as likely to be subject to the corporate alternative minimum tax as new capital, roughly 90 percent of the benefits to physical capital from eliminating the corporate alternative minimum tax would accrue to old investment rather than new investment. Even supporters of corporate AMT repeal have shown that it would generate virtually no stimulus in the first two years of its existence.[36]

In other words, elimination of the corporate alternative minimum tax is an extremely blunt and inefficient approach to encouraging new investment in the short run – especially when previous AMT credits are fully refunded, as under the House legislation. According to the Joint Committee on Taxation, the AMT repeal would also cost $24 billion over the next decade.[37]

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[35] Bureau of Economic Analysis, "Fixed Assets and Consumer Durable Goods for 1925-99," corrected tables, June 15, 2001, http://www.bea.doc.gov/bea/dn1.htm. The $10 trillion figure reflects the current cost estimate of the net stock of private, non-residential structure, equipment, and software.

[36] See, for example, American Council on Capital Formation, "The Case for AMT Repeal," 1996. The paper estimates that aggregate investment would rise by just $2 billion (in 2001 dollars) in the first year of complete repeal and by less than $5 billion in the second year.

[37] Joint Committee on Taxation, *Estimated Budget Effects of a Modified Chairman's Amendment in the Nature of a Substitute to the Revenue Provisions Contained in H.R. 3090*, JCX-70-01, October 12, 2001.

Subpart F

Under the "Subpart F" rules of current law, U.S. shareholders are taxed on some types of income earned by a controlled foreign corporation – regardless of whether the income is distributed to the U.S. shareholder. The purpose of these rules was to prevent international firms from using internal organizational shifts and distorted transfer pricing to hide income from U.S. taxation. A temporary provision alters these rules for financial services firms. The House proposal would make this temporary provision permanent, and thus permanently exempt income earned in banking, finance, or insurance from the Subpart F rules. The change clearly provides a tax benefit to firms in these industries, but could also provide a disincentive to repatriation of foreign income. In any case, as with the repeal of the corporate AMT, the proposal primarily represents a windfall for old capital – and therefore does not reflect sound stimulus principles. It is also permanent rather than temporary. Reflecting its permanent nature, it provides only $260 million in tax relief in 2002 – or only 1.2 percent of its ten-year cost of $21 billion. It is extremely difficult to see how this provision represents a cost-effective stimulus proposal.

Capital gains tax rate reduction

The House legislation would reduce the maximum tax rate on long-term capital gains from 20 percent to 18 percent.[38] Whatever its merits in other contexts, a capital gains tax cut has several crucial drawbacks as a stimulus tool.[39] In particular, a permanent capital gains tax cut is poorly designed to address the short-term economic problems at hand:[40]

- First, cutting the tax rate on capital gains is unlikely to stimulate consumption. Indeed, proponents of a capital gains tax reduction typically argue that it would stimulate national saving, not consumption.[41]

[38] For assets held more than one year, taxpayers in the 15 percent bracket and lower brackets face a 10 percent capital gains rate, while taxpayers in the 27 percent bracket and higher brackets face a 20 percent capital gains rate. Rates lower than these can currently apply to assets held for at least five years. Assets acquired after December 31, 2000 that would otherwise be subject to the 10 percent rate will be taxed at 8 percent if they have been held for more than five years before being sold. For assets otherwise subject to the 20 percent rate, an 18 percent rate will apply if the asset has been held for more than five years and was acquired after December 31, 2000. This 18 percent rate thus will be applied to some assets sold beginning in 2006. Assets held for less than one year (short-term capital gains) are taxed at the same rate as regular income.

[39] This material draws upon Joel Friedman, Iris Lav, and Peter Orszag, "Would a Capital Gains Tax Cut Stimulate the Economy?" Center on Budget and Policy Priorities, September 20, 2001.

[40] For further discussion of the effects of a capital gains tax cut, see Leonard Burman, *The Labyrinth of Capital Gains Tax Policy: A Guide for the Perplexed* (Brookings Institution: Washington, 1999), and Henry Aaron, "The Capital Gains Tax Cut Mystery," *Tax Notes*, March 9, 1992.

[41] It is also worth noting that a capital gains tax reduction would produce disproportionate benefits for higher earners, who would be unlikely to spend a large percentage of their tax gains. Based on estimates by the Congressional Research Service (CRS), it is likely that 80 percent of the benefits from a capital gains tax cut would accrue to the two percent of the population with the highest incomes – those with incomes exceeding $200,000. Using Joint Committee on Taxation data for 1999, CRS estimated that the 1.8 percent of taxpayers with incomes over $200,000 (in 1999 dollars) pay 78.6 percent of capital gains taxes. Jane G. Gravelle, "Capital Gains Taxes: Distributional Effects," Congressional Research Service, September 24, 1999. See also Citizens for Tax Justice, "Proposed Capital Gains Tax Cut Would Divert Stimulus Funds to the Very Wealthy," October 12, 2001, which finds that the top 1 percent of the income distribution would receive 71 percent of the benefits from the capital tax rate reduction included in the Ways and Means legislation, and that the top 5 percent would enjoy 87 percent of the benefits.

- Second, a capital gains tax cut is typically promoted as producing economic benefits in the long run, not the short run. Even those who believe that a capital gains tax cut would encourage business investment acknowledge that the impact is slow.[42] And even in the long run, the benefits are limited. For example, a recent Congressional Budget Office study concluded that reducing the top tax rate on long-term capital gains from 20 percent to 15 percent would have a minuscule effect on private saving and long-term economic growth.[43]

- Third, a capital gains tax reduction is not an efficient way to target *new* investment, because the tax cut would apply to capital gains on *existing* assets, and those gains are a return to prior investment.

- Finally, the capital gains rate cut would reduce revenue in the long run, and exert upward pressure on long-term interest rates.[44]

These considerations lead me to the same conclusion as economist Jane Gravelle in a recent Congressional Research Service report: "a capital gains tax cut appears the least likely of any permanent tax cut to stimulate the economy in the short run..."[45]

Acceleration of the tax reductions for higher-income households

Another component of the House proposals would accelerate to January 1, 2002, the income tax rate reductions in the previous 28 percent marginal tax bracket currently scheduled to take effect in 2004 and 2006.

This proposal violates the principle that any household tax reductions should maximize the effect on demand in the short run, and it may *undermine* fiscal discipline in the long run.

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[42] See, for example, "Capital Gains Taxes and the Economy: A Retrospective Look," prepared for American Council for Capital Formation by Standard and Poor's DRI, June 25, 1999.

[43] Congressional Budget Office, "An Analysis of the Potential Macroeconomic Effects of the Economic Growth Act of 1998," CBO Memorandum, August 1998. CBO estimated that private saving would rise by 0.3 percent, adding about 0.06 percent to the capital stock after ten years. The increase in GDP would amount to about $2 billion to $3 billion in the tenth year – or less than two one-hundredths of one percent of GDP. The long-run benefits of a capital gains tax cut are limited for several reasons. For example, many assets would be unaffected. Assets held in pension funds and individual retirement accounts do not face individual capital gains tax – nor do assets held by foreign investors, corporations, non-profits, or those who offset capital gains with capital losses. Similarly, capital gains on assets held for less than one year are subject to the regular income tax rate, not the preferential long-term capital gains rate, and therefore would be unaffected. Furthermore, for most families, any gain on the sale of their personal residence is exempt from the capital gains tax, since the first $500,000 of the gain for married couples ($250,000 for singles) is exempt from the tax. Investors can also reduce or avoid the impact of capital gains taxes by deferring the sale of assets. In fact, about half of all capital gains tax is avoided by investors altogether, as they hold onto assets until they die. (Heirs do not have to pay tax on the gains accrued during the lifetime of the original owner.)

[44] The Joint Tax Committee estimated that the Ways and Means proposal on capital gains would reduce revenue by more than $10 billion between 2002 and 2011.

[45] Jane G. Gravelle, "Economic and Revenue Effects of Permanent and Temporary Capital Gains Tax Cuts," Congressional Research Service, September 17, 2001.

- First, the proposal does not maximize the effect on demand in 2002. The ten-year cost amounts to $54 billion over ten years, with only $13 billion of the cost arising in 2002. Furthermore, the accelerated rate cuts would only apply to high-income households – it would affect only those who are in the top 25 percent of the income distribution.[46] The marginal propensity to consume income among the higher-income group who would benefit from the acceleration is below that of lower- and moderate-income groups.[47] Since most of the cost would occur after 2002, and since the amounts that would flow to individuals in 2002 would be concentrated among those with relatively low propensities to consume, accelerating the tax cuts would have a low bang for the buck.

- Second, the ultimate objective of the proposal may have the effect of undermining long-term fiscal discipline. Accelerating the rate cuts would have the political effect of helping to lock in further tax rate cuts for the highest-income taxpayers. Yet in the near future, Americans will need to reconsider such further reductions in tax rates for high-income taxpayers, as the economic and budget outlook after the terrorist attack and the current slowdown become clearer. Careful consideration will have to be given to the policy adjustments necessary to maintain a sound long-term fiscal position (particularly in light of ongoing anti-terrorism costs). Steps that would be perceived as reducing policy-makers' flexibility to re-establish fiscal discipline could actually be counter-productive in the short run, by causing long-term interest rates to remain substantially higher than they otherwise would.

Two more promising tax cuts

Two components of the House tax package represent sound short-term stimulus, although one should be significantly modified to be cost-effective.

First, the legislation would provide another round of temporary household rebates, targeted on lower- and middle-income households, a proposal also endorsed by the Bush Administration and the Senate Finance Committee. In particular, roughly 34 million tax filers received no rebate under the first round of rebates sent out this summer, and another 17 million

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[46] Roughly three-quarters of tax filers either have no taxable income (because their income is less than their deductions and exemptions) or face a marginal tax rate of no more than 15 percent. Only 30 million tax filers – or about 25 percent of all tax filers – have a portion of their taxable income in the former 28 percent bracket. See David Campbell and Michael Parisi, "Individual Income Tax Rates and Tax Shares, 1998," *Statistics of Income Bulletin*, Spring 2001, Tables 1 and 5.

[47] Dynan, Skinner and Zeldes (2001) show that, in several different data sets, average propensities to consume out of current and permanent income fall as those income measures rise. Parker (1999) uses data from the Consumer Expenditure Survey and finds that the marginal propensity to consume out of transitory income at low levels of resources (which for most low-income households is effectively current income) is much higher than the MPC out of transitory income for very high-income households. McCarthy (1995) uses data from the Panel Survey of Income Dynamics and shows that the marginal propensity to consume out of idiosyncratic income shocks is larger for low-wealth households than for high-wealth households. The weight of the evidence suggests that lower- and middle-income households do have higher propensities to consume out of available resources. See Karen E. Dynan, Jonathan Skinner, and Stephen P. Zeldes, "Do the Rich Save More?" NBER Working Paper 7906, National Bureau of Economic Research, September 2000; Jonathan Parker, "The Consumption Function Re-estimated," mimeo, August 1999; and Jonathan McCarthy, "Imperfect Insurance and Differing Propensities to Consume Across Households," *Journal of Monetary Economics*, November 1995, pages 301-27.

received only a partial rebate.[48] The new round would focus its rebates on these tax filers. Recent research suggests that these households have tendencies to spend a greater proportion of any new income than high-income households do – and the more the rebate is spent, the more effective it is as a stimulus. Since it is temporary and maximizes its effect on demand, this proposal represents a sound stimulus measure.

Second, the legislation would allow firms to immediately expense 30 percent of new investments over the next three years. The basic idea behind the investment incentive is sound, but the details of the House proposal are problematic. In particular, the incentive should be limited to investments made over the next year or so, not the next three years. As noted above, the current slowdown is expected to be over well before 2004, and therefore the investment incentive should not persist that long. By extending the period during which the incentive applies, the House legislation weakens its impact during 2002, when stimulus is most needed.

For example, consider a firm deciding whether to make an investment in 2002 or 2003. If the tax incentive applies only in 2002, the firm may be tempted to accelerate the investment into that year. But if the incentive applies to both 2002 and 2003, it would have no additional incentive to move the investment into 2002. Since the economy is expected to have recovered by 2003 or 2004, the principal aim of the incentive should be to encourage additional investment in 2002, not later. Extending the incentive beyond 2002 not only increases its budgetary cost; it also attenuates its benefits during the critical months and quarters ahead. In addition, allowing the incentive to exist for three years -- especially since it would remain in effect long after the economy is currently expected to recover -- potentially undermines the credibility of sunsetting the provision at all.

One problem with temporary investment incentives is that they can create a decline in investment after they expire. To address this problem and to bolster the credibility of the sunset itself, Congress could adopt a proposal put forward by Bill Gale of Brookings. Dr. Gale would allow firms making qualifying investments to write off 50 percent of expenses immediately if the investment were made before the end of calendar year 2001, 40 percent if made in the first quarter of 2002, 30 percent if made in the second quarter, 20 percent if made in the third quarter, and 10 percent if made in the fourth quarter of 2002.[49]

Summary and conclusions

Temporary expansions in unemployment insurance benefits would provide economic stimulus when it is needed without damaging the long-term budget outlook. The unemployment insurance program is able to target the pockets of the economy that need the most stimulus, effectively limit the decline in consumption for those who become unemployed, and dampen the severity of the recession. Temporary expansions in unemployment insurance to cover part-time workers, extend benefits beyond 26 weeks, and raise benefit levels would provide cost-effective stimulus to the economy over the next few quarters. In addition to these expansions in

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[48] Gregg Esenwein and Steve Maguire, "The Rate Reduction Tax Credit (The "Tax Rebate") in P.L. 107-16," Congressional Research Service, July 15, 2001.

[49] See William Gale, "Perspectives on the Tax Stimulus Debate," Committee on the Budget, U.S. Senate, October 25, 2001.

unemployment insurance benefits, an effective stimulus package would provide assistance to state governments, make modest expansions in other low-income programs, and combine the household rebate aimed at lower- and moderate-income workers with a better-designed *temporary* incentive for business investment.

Committee on Education and the Workforce

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THE BROOKINGS INSTITUTION

1775 Massachusetts Avenue, NW Washington, DC 20036-2188
Tel: 202-797-6000 Fax: 202-797-6004
www.brookings.edu

PETER RICHARD ORSZAG

Peter R. Orszag is the Joseph A. Pechman Senior Fellow in Tax and Fiscal Policy at The Brookings Institution. He previously served as Special Assistant to the President for Economic Policy at the White House, as Senior Economist and Senior Adviser on the President's Council of Economic Advisers, as an economic adviser to the Russian Government, and as an adjunct member of the economics faculty at the University of California at Berkeley. Dr. Orszag earned his B.A. from Princeton University, and an M.Sc. and Ph.D. in economics from the London School of Economics, which he attended as a Marshall Scholar.

PROFESSIONAL EXPERIENCE

- Senior Fellow in Economic Studies, The Brookings Institution (Washington, DC), August 2001-; Joseph A. Pechman Fellow in Tax and Fiscal Policy, October 2001-. Current projects include work on Social Security and higher education. Areas of expertise include aging, budget policy and politics, climate change, demographics, education policy, income distribution, financial markets, macroeconomics, pensions, poverty, privatization, Social Security, and tax policy.

- President, Sebago Associates, Inc. (Belmont, CA), August 1998-. Founded public policy consulting firm to provide analytical support and advice to both the public and private sectors. Clients have included the Securities and Exchange Commission, Social Security Administration, World Bank, Nordic Council of Ministers, Governor of California, Mayor of Los Angeles, Central Bank of Iceland, Government of Trinidad and Tobago, and firms ranging from small businesses to the Fortune 500.

- Lecturer, University of California, Berkeley (Berkeley, CA), January 1999-December 2000. Taught the intermediate macroeconomics course to 300-350 undergraduates. Supervised six to eight teaching assistants.

- Consultant, McKinsey & Company (San Francisco, CA), June 1998-August 1998. Advised one of the nation's largest HMOs on developing its 1999 budget and redesigning its budget process.

- Special Assistant to the President for Economic Policy, National Economic Council (The White House), November 1997-May 1998; Senior Economic Advisor, January 1997-October 1997. Served as top economic advisor to the NEC Director. Portfolio included Social Security, climate change, macroeconomic analysis, electricity restructuring, personal

bankruptcy reform, privatization of the U.S. Enrichment Corporation, and a variety of other economic issues.

- Senior Adviser to the Council, Council of Economic Advisers (Executive Office of the President), May 1996-November 1996; Senior Economist, July 1995-May 1996. As the senior staff member of the Council, wrote the 1996 *APEC Economic Outlook*; wrote and edited sections of the *Weekly Economic Briefing of the President* and the *Economic Report of the President*; and represented the United States at international meetings, including APEC and the OECD.

- Professional Research Staff, Centre for Economic Performance (London School of Economics), October 1994-June 1995. Member of International Finance, Capital Markets, and Macroeconomic research groups.

- Staff Economist, Council of Economic Advisers, August 1993-July 1994. Areas of concentration included international macroeconomics, international trade, and the reform process in the former Soviet Union.

- Economic Adviser, Macroeconomic and Fiscal Unit (Ministry of Finance, Russian Government), January 1993-August 1993. Assisted the Russian Government in its negotiations with the International Monetary Fund.

- Research Officer, Centre for Economic Performance, September 1992-August 1993. Wrote *Russian Economic Trends*, the quarterly report of the Russian Government.

EDUCATION

- London School of Economics, Ph.D. in Economics, March 1997. Thesis: *Dynamic Analysis of Regime Shifts Under Uncertainty: Applications to Hyperinflation and Privatization*

- London School of Economics, M.Sc. in Economics with Distinction, June 1992

- Princeton University, A.B. *summa cum laude* in Economics, June 1991

- Phillips Exeter Academy, graduate with High Honors, June 1987

HONORS AND PROFESSIONAL ASSOCIATIONS

- Phi Beta Kappa, inducted June 1991

- John Glover Wilson Memorial Prize in Economics at Princeton University, June 1991

- Marshall Scholar, 1991-2

- M.Sc. Economics Prize at the London School of Economics, June 1992
- Member of the National Academy of Social Insurance and Pacific Council on International Policy
- Research Associate, Center for Retirement Research, Boston College

RECENT PAPERS (1999-)

Academic Papers, Books, and Manuscripts

- "The Impact of Individual Accounts: Piecemeal vs. Comprehensive Approaches," (with J. Michael Orszag, Dennis J. Snower, and Joseph E. Stiglitz), Annual Bank Conference on Development Economics, The World Bank, April 1999
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- "The Maturity Structure of Administrative Costs: Theory and the UK Experience," (with Mamta Murthi and J. Michael Orszag), in Organization for Economic Cooperation and Development, *OECD Private Pension Series No. 2* (OECD: 2001)

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APPENDIX G – SUBMITTED FOR THE RECORD, STATEMENT OF CONGRESSWOMAN HILDA L. SOLIS, COMMITTEE ON EDUCATION AND THE WORKFORCE

Statement of Congresswoman Hilda L. Solis
Economic Recovery and Assistance to Workers
November 14, 2001

I would like to thank Chairman Boehner and Ranking Member Miller for working to make this hearing a reality. This is an extremely important issue for communities like my district and for the nation as a whole.

Although this House has already passed an Economic Stimulus package, Congress and the Administration are still a long way from agreeing on a fair and reliable proposal that would help all sectors of our economy and all socio-economic cla[illegible] Any Economic Stimulus plan should not only provide for tax relief, but it must also provid[illegible]stance for the hundreds of thousands of unemployed workers throughout our nation.

The final stimulus plan should also help *all* workers. The Republican plan that passed the House and President Bush's plan hardly address the fact that our economy was weakening even before the attacks of September 11th. Their plans do nothing to help the worker who was having a tough time finding a job before the attacks and is now having an even harder time.

In my Congressional District alone, unemployment is up almost one full percent in El Monte and South El Monte's unemployment has reached the astounding rate of 9.3 percent. These are minority communities in sever need of assistance.

We also need to attend to the genuine needs of airline employees and other employees in the travel and tourism industry. Congress has ignored these workers. We provided billions for the bail-out of airline companies yet we have provided nothing for their employees. We need to acknowledge that those companies that are American economic cornerstones have succeeded because of the contributions of their respective workforces. They deserve inclusion in our Economic Stimulus package.

Once again, I want to reemphasize the need for a full and fair stimulus plan that helps *all* Americans.

Thank you.

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